

**Japanese Economic Power and
Security Policy in the Post-Cold
War Era: A Case Study of Japan-
North Korea Security Relations**

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Abstract

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This thesis investigates the future direction of Japanese security policy by asking whether Japan can contribute to international security through the use of economic rather than military power after the Cold War, and what are the policy-making obstacles to this.

Chapter one outlines how the post-Cold War debate on security has shifted from military to economic conceptions of security, and how this makes it possible to conceive of Japan as a global civilian power which employs its economic strength to contribute to international security.

Chapters two and three then go on to construct a detailed theoretical model of economic security policy and Japanese economic power in order to test empirically the concept of global civilian power in the case study.

Chapter four introduces the case study of Japan-North Korea security relations and demonstrates that since the end of the Cold War the North Korean security threat has come to be perceived by policy-makers in Japan as generated by economic insecurity, and thus requiring the types of economic solutions that a global civilian power can provide.

Chapter five then tests the model of Japanese economic power against the case of North Korea and reveals that even though Japan has the latent capacity to use economic power to help resolve this security problem, as yet it has not mobilised sufficient economic power to enable it to act a global civilian power.

Chapter six looks at the internal security policy-making process in Japan in order to explain the reasons behind Japan's non-fulfillment of the role of a global civilian power, and argues that in fact Japan in this period has increased its military role in security by utilising the legitimacy of the North Korean threat.

In the light of the preceding arguments, the conclusion reappraises the concept of global civilian power, Japan's security role, and the implications for global security.

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Preface

I would like to thank the Japan Foundation Endowment Committee and the Japanese Ministry of Education for the scholarships that have made this research possible between October 1994 and March 1997.

The fieldwork for this dissertation was carried out at the Graduate School of Law and Politics, The University of Tokyo, and I would like to thank the academic staff and students of that institution for the support during my stay there. In particular, I owe thanks to my supervisor, Professor Takahashi Susumu, for his wise and kind advice, and to Kimura Masatoshi for his friendship, patient tutoring, and for helping me to navigate my way around the world of Japanese scholarship and politics. I am also grateful to those scholars, government officials, and politicians who spared their time to talk to me about my research project.

In the UK, I want to thank my parents for their unstinting support, and my girlfriend, Chiyako, for putting up so patiently with my frequent and long absences in Japan, and for her encouragement during the whole course of the research.

Special thanks, though, have to go to my supervisor, Professor Glenn Hook, who read and commented on all the drafts of this dissertation and provided me with invaluable and incisive advice. If it were not for Professor Hook's boundless energy and excellent guidance, this dissertation could not have been completed.

I have learned a great deal from all of those mentioned above, but I alone am responsible for any errors, factual or otherwise, contained in this dissertation.

Finally, following Japanese convention, all Japanese names in the text, notes, and bibliography are given with the family name followed by the given name. The long Japanese vowels of 'o' and 'u' are represented by ô and û respectively.

Introduction

The basic function of all states throughout history has been to ensure the security of their populations from threat. States that have failed in their security responsibilities are usually the ones that have fallen eventually by the wayside as they lose legitimacy in the eyes of their populations and internal institutions. Hence, security has always been at the centre of the policy-making agenda of individual states and between states. The populations and policy-makers of states have learned by harsh experience that the creation of a viable security policy is a complex task, is fraught with risk, and requires imaginative and comprehensive approaches. It is therefore ironic that during the Cold War, just as states and the international system faced the greatest destructive risks, in some ways the making of security policy became relatively easier. For while nuclear weapons posed the greatest and most immediate destructive threats in history, the bi-polarity that accompanied these weapons systems also gave policy-makers the confidence--whether misguided, or not--that they could identify clear enemies and clear strategies and procedures for dealing with the prevention of conflict. Of course, these conceptions of security did not mean global peace, as the superpowers and other major developed powers fought out their struggles through intervention in low-intensity conflicts in the developing world.

Likewise, even for states like Japan that were not engaged directly in Cold War conflict, the superpower tensions of this period gave an air of certainty to security policy. Debate over security policy in Japan in the post-Cold War period has always been fierce, and, as the 1960 US-Japan security treaty crisis showed, has had the capacity to provoke great domestic political unrest. But after the crisis passed, and despite other periodic crises, Japan's earlier incorporation into the US alliance system ensured that in many ways it could delegate its responsibility as a state for security policy-making to the US, and the issue of security could be swept under the domestic political carpet to be largely forgotten. Even in the 1980's, as

Japan increased its military support for the US alliance, the incremental expansion of Japan's defence role meant that security could still be suppressed as a political issue. As long as Japan stayed beneath the US's nuclear umbrella and bilateral cooperation proceeded with the objective of containing the USSR as a common Cold War enemy, security could be kept more or less off the political agenda.

The problems of security policy-making have also long been central to the study of international relations, and vice versa. International relations was established as a field of academic study after World War I in an attempt to solve the perennial puzzle of why nations continued to go to war, when, as the events of 1914-18 had clearly showed, the costs outweighed the gains. Moreover, the study of international relations was not intended as a purely academic exercise. Its findings were thought to contain lessons for policy-makers, and, indeed, a number of leading academics have been called upon to devise state security policy in countries such as the US. However, during the Cold War it is also clear that the fields of international relations and international politics often became subject to the same type of over self-assurance that also affected the approach of state policy-making communities to security matters, and which only the extraordinary circumstances of the bipolar/nuclear world could have afforded. Hence, the debate on security in international relations and international politics also became polarised between its opposing realist and liberal perspectives. Despite the apparent passion of the academic debate on security, much of it had a tendency to become ritualistic and to sacrifice objective evaluation of the essential truths of each school of thought in favour of maintaining rigid theoretical and ideological divisions. The end result of this polarisation was that few academics were willing to think outside their respective paradigms, and thus that the fields of international relations and international politics would be ill-equipped initially to assess the changed security environment after the end of the Cold War. In this way, the academic debate had neglected its core purpose of providing new and innovative ways to consider the

causes behind conflict and to provide the type of flexible thinking about security matters which would be of benefit to policy-makers.

The end of the Cold War, though, has challenged policy-makers across the globe and in Japan, and academics in the fields of international politics and international relations to rethink their approach to security. For, it is clear that after the passing of the unique bi-polar structure, security problems and security policy have reverted back to an age of uncertainty and risk. Although the likelihood of nuclear war has been greatly reduced, the post-Cold War period has seen the outbreak of one full-scale conventional war in the Gulf, the spread of a number of low intensity conflicts in Africa and Europe, and the threat of conflict in the Asia-Pacific region. As will be demonstrated in chapter one, many of the military approaches to security policy employed during the Cold War period no longer fit the increasingly opaque security conditions after the Cold War. Policy-makers of the major states now have to begin to reconsider their notions of security and to devise once again complex and comprehensive approaches to deal with the complex post-Cold War security agenda and to ensure global stability.

Japanese policy-makers have also had a rude awakening with the end of the Cold War. The certainties of the Cold War and its allies and enemies have faded, and policy-makers in Japan have been forced, even if at times reluctantly, to think about the security responsibilities which they have so long been able to avoid behind the shield of US hegemony in the Asia-Pacific. Japan as an economic superpower and potentially a military superpower clearly matters once again in regional and global security in the post-Cold War period. As the experience of the Gulf War of 1990-91 showed, demands for a greater Japanese contribution to international security are bound to grow and Japan will inevitably need to fulfill some kind of role in global security. The kind of role that Japan eventually chooses, and how successfully it fulfills it, will have significant implications for world peace and stability after the Cold War.

The fields of international relations and international politics also need to change in response to the post-Cold War security agenda. The existing paradigms when used in exclusion of each other have been insufficient to explain the reasons behind the end of the Cold War and the changes in the security environment that have followed it. International relations and international politics undoubtedly have crucial roles to play in helping to understand post-Cold War security, not just in order to provide detached academic analysis of events, but also as bodies of thought which can assist policy-makers to think in flexible ways about how to tackle the post-Cold War security agenda. In this sense, the end of the Cold War is an opportunity for the study of international relations and international politics to breakaway from narrow theoretical stances, to mix the best of theories from all schools of thought, to use this as a way to search for new approaches to post-Cold War security, and to return to the essential purpose of providing theoretical models and insights to policy-makers to help them form security policy.

This set of observations about the vital importance of security-policy making after the Cold War, Japan's role within global security policy, and the study of international relations and international politics for understanding security policy, brings us to the fundamental questions and objectives that will be explored throughout this dissertation. Firstly, after the Cold War, security remains as the most vital issue for states and the international political system. But, as chapter one will show, the whole issue of security policy-making has been made more complex in this period by the reemergence of low intensity and non-specific threats. Many of these threats cannot be adequately handled by means of military power alone, and instead require solutions involving the exercise of economic power. This reinforces the argument that a fresh and innovative approach is required to the issue of security after the Cold War. Therefore, this dissertation is concerned with investigating the future shape of global security policy, and, based upon the belief that complex and innovative approaches are necessary to deal with the post-Cold

War security agenda, examines the utility of economic power as the way forward in security policy in this period.

Related to this first question is a second one concerned with the role of Japan in post-Cold War security. As noted above, Japan is clearly a vital player in regional and global security after the Cold War, and this dissertation analyses the policy-making debate in Japan to reveal what is likely to be this state's future role in security. More specifically, the question that is asked, and which links in with the first question above, is whether Japanese policy-makers can create a viable security policy based primarily on economic rather than military power, and what are the implications of this for global security as a whole in the post-Cold War period. The intention of this question is then to go even further, and to ask what are the opportunities and obstacles for Japanese policy-makers in articulating a conception of Japan as a new type of power, or global civilian power, which uses economic power for security purposes.

To help ask the first and second questions above concerned with the importance of economic power in post-Cold War security and Japan's role as global civilian power, a third question is explored, which again is linked to the observations made at the start of this introduction about the importance of international relations and international politics theory for understanding post-Cold War security policy. The third question asks what types of insights can be gained into post-Cold War security by combining different perspectives from these fields, and whether they can be used to provide a complete and testable model of economic power in the service of security policy, which can then be employed to give shape for the first time to the conception of the global civilian power and Japan's performance of that role.

Therefore, this thesis lays out three interrelated questions and objectives concerned with elucidating the course of global security and the part that economic power plays in it; Japan's general role in global security and as a global civilian

power; and general theoretical understanding of the utility of economic power for security policy-making after the Cold War.

In order to reach these overall objectives and to explore the question of Japan as a global civilian power both thorough theoretical and empirical approaches are required. For it is clear that, despite the obvious importance after the Cold War of the issues of security and economic power, Japan's global security role, and the need for international politics theory to aid in the understanding of security, as yet modern scholarship has failed to produce studies of these issues which explain them with sufficient and interlinking theoretical and empirical sophistication. For instance, in the field of international politics there are individual studies which offer an overarching and useful theoretical framework of economic power. However, whilst these frameworks do offer insights into the role of economic power in the post-Cold War world and will in part be incorporated into the theoretical approach of this dissertation, they often lack an empirical basis, untested as they are against specific case studies and constructed largely from anecdotal evidence. In addition, even though these models have implications for security problems, their analysis rarely is carried over to make explicit the link between economic power and security, or to offer models which can be used to investigate this link.

With regard to the case of Japan and international politics theory, there have been a number of studies that, as will be outlined more fully in chapter one, have pointed to the important role that Japan could play in security based upon its economic power. But again, few of these studies have attempted to take this point to its logical conclusion and to construct a complete theoretical model of Japanese economic power and to investigate empirically its use in the service of security policy. In many ways, the impression is that for the study of international politics Japan remains as a source of convenient examples with which to illustrate wider and disparate points about economic power and security, but that the case of Japan has not yet been treated as one which could help to transform our understanding of the connection between economic power and security and, in turn, the whole field

of international politics. Even the concept of global civilian power highlighted in this dissertation, which offers a new paradigm to understand economic power and security after the Cold War, still remains very much in its 'prototype' stage in international politics theory and needs detailed expansion of its theoretical aspects to turn it into a model which can be tested empirically.

The field of Japanese studies itself has not produced adequate theoretical and empirical work on the relation between Japanese economic power and security policy after the Cold War. To be sure, there has been plenty of speculation about Japan's security role after the Cold War, and, as chapter one will show, much of this has pointed to the importance of Japan's exercise of economic power for security purposes. There have also been many detailed and excellent empirical case studies of Japanese security policy-making, and some of them have focused on the use of economic power, and especially economic aid, for security. But, even though all Japan specialists are aware that the particular characteristics of Japanese post-War history mean that the problem of economic power is essential to understanding any aspect of Japanese foreign policy, it is remarkable that few scholars have tried to produce a comprehensive theoretical and empirical overview of the connections between Japan's economic power and security policy. Still fewer scholars have tried to bridge the gap between the study of Japan and international politics, and shown the significance of Japanese economic power for global security after the Cold War. The notable exceptions to this have been the proponents of the idea of global civilian power in Japan, and Reinhard Drifte's attempts to show how in the 1990's Japanese foreign policy has achieved its ends chiefly through economic power.¹ However, as has been seen, the idea of global civilian power requires further theoretical and empirical elaboration, and Drifte's work, whilst groundbreaking in many ways by linking questions of economics to security in the case of Japan and inviting us to throw away our preconceptions when looking at Japanese foreign policy, arguably suffers from a lack of theoretical

¹Reinhard Drifte, *Japan's Foreign Policy in the 1990's: From Economic Superpower to What Power?*, London, Macmillan, 1996.

completeness, and when looking at Japan's economic power falls back on broad anecdotal examples with only limited empirical detail in relation to a specific case study or the problems for policy-making in mobilising economic power.

This dissertation in seeking to answer the question of Japan's role as a global civilian power aims to build upon much of the existing work in international politics and Japanese studies outlined above but also to avoid the theoretical and empirical weaknesses of both. As stated above, this dissertation seeks to construct a theoretical model of global civilian power that can then be tested empirically against a specific problem in order to reveal the implications for Japanese and global security. To avoid the theoretical pitfalls of other studies, this model will be created by being one of the first studies to combine Western and Japanese scholarship to produce a complete, structured, and methodical framework of global civilian power with which to analyse the utility of Japanese economic power for security after the Cold War. In line with the need mentioned above to escape from overly restrictive theoretical divisions in the post-Cold War era, this model will borrow deliberately from different theoretical schools in both Japan and the West. No excuse is made for this lack of intellectual purity, as theory, especially after the Cold War and especially when concerned with the critical issue of security, should be used to open rather than close doors to comprehending problems of security and their solutions.

However, at the same time as this dissertation aims to create a complete theoretical model of economic power, it will also subject the model to rigorous empirical tests. To do so, an extensive case study of Japan-North Korea security relations will be presented in the later chapters. The aim of this case study is to reassess the traditional interpretations of the Korean Peninsula security problem and to show the potential utility of economic Japanese economic power in dealing with it after the Cold War. This case study requires a detailed look at Japan-North Korea relations in the 1990's and the security policy-making process in Japan. Therefore, in the course of conducting the empirical testing of the model of global civilian

power, this dissertation will also be one of the first studies to give a comprehensive overview of how the main Japanese policy-making actors perceive problems of security after the Cold War, and to catalogue and analyse Japan-North Korea economic and political relations in the 1990's.

Moreover, aside from the enhanced theoretical and empirical understanding of Japanese security policy that the case study aims to provide, it is also hoped that it will show that research into the North Korean security problem is of intrinsic importance in itself, as North Korea is a relatively unknown state, but one which could have a decisive impact on security in Northeast Asia, the Asia-Pacific region, and possibly even globally.

Structure of the dissertation

The scheme that the dissertation will take to examine the questions above is as follows. Chapter one examines the debate in the West and Japan on security after the Cold War, the particular problems that policy-makers face, and why economic conceptions of security are so important to help in dealing with the post-Cold War security agenda. It highlights the doubts in the West concerning the utility of traditional forms of military security policy to deal with post-Cold War problems and the contest between forms of security policy based on military and economic power. Chapter one then turns to look at the debate on security in Japan to ask whether its traditions of security policy based on economic power offer an alternative vision for security in the post-Cold War era. The remainder of chapter one is then devoted to an overview of the theory on power and international politics and how this has begun to argue for the conception of Japan in the post-Cold War period as a global civilian power.

Chapter two expands the concept of global civilian power by combining theoretical literature to produce a model that can examine the utility of economic power in the service of security policy. The chapter lays out typologies of economic

security, economic power, and the components of economic power, and assesses the security benefits of each of them.

Chapter three then applies this model to Japan in order to evaluate the links between the components of economic power, security policy, and the policy-making process. This chapter will present for the first time a complete model of Japanese economic power in order to prepare for the part of the case study in chapter five dealing with Japan-North Korea economic relations.

Chapter four begins the case study with an analysis of the North Korean security problem, and demonstrates that since the mid-1990's it has come to be seen as one generated by economic instability and thus capable of being resolved by economic power.

Chapter five continues the case study by looking in detail at the North Korean economy and its links with Japan to allow an assessment of the type of economic power that Japan could exercise over North Korea in order to resolve its security problem.

Chapter six then looks at the obstacles in the policy-making process to Japan's use of economic power in dealing with the North Korean security problem, and how this has impacted upon the balance between Japanese economic and military security policy after the Cold War.

Finally, the conclusion brings together all the points in the previous chapters; explains the contribution of the dissertation to theoretical and empirical understanding of economic power and security policy globally and in Japan; considers the results of the research in light of the three objectives outlined above; and asks some general questions about the future of Japanese and global security policy, and the validity of the concept of global civilian power.

1 Global and Japanese conceptions of power and security policy in the post-Cold War era

This chapter examines the debate amongst US and Japanese policy-makers over the future direction of security policy after the Cold War. It aims to demonstrate how the end of the Cold War has given rise to a number of new and reemergent security issues that have increased doubts in policy-making communities about the utility of military power as the way forward in security policy and have obliged them to reconsider forms of security policy in which economic power plays a central role. With regard to the case of Japan, this chapter shows how the internal policy-making debate is torn between military and economic conceptions of security after the Cold War; and asks whether Japan is capable of reinvigorating its traditions of security policy reliant on economic power, and contributing in this way to global security.

The chapter then goes on to examine Western and Japanese contemporary scholarship in international politics to ask if it is capable of supplying a model of a state which can be used to test the theoretical possibilities of Japan's use of economic power for security policy in the 1990's. It aims to show how much of contemporary scholarship points to economic power as the key form of power after the Cold War, and that as a result it is possible to introduce the concept of Japan as a global civilian power, which uses economic power to achieve its security ends.

THE NATURE OF SECURITY POLICY AFTER THE COLD WAR

The Gulf War, military power, and multilateral intervention

At the end of the Cold War, the initial reaction in some quarters was that the collapse of the USSR and global communism represented a decisive victory for the military power of the US and its allies, and appeared to vindicate the decision

of President Ronald Reagan's administration in the early 1980's to increase significantly defence expenditure, and to seek strategic parity, or even superiority, over the USSR, by embarking on a quantitative and qualitative build-up of US military forces through such programmes as SDI (Strategic Defence Initiative).¹ These interpretations of the end of the Cold War were based upon the stark reality that the bi-polar international system had been constructed, shaped, and driven by military confrontation between the superpowers and their respective military blocs and alliance systems.

Following on from the assumption that the Cold War had been decided by military power, the expectation was that the post-Cold War peace and security environment would also be determined to a large extent by this factor. President George Bush's administration was certainly conscious of the need for retrenchment in military spending and overseas military commitments in order to reap the benefits of the 'peace dividend', but in its early years continued to be influenced by the thinking of its predecessor, in that it too saw national security predominantly in military terms. The decision by Bush to intervene in Panama in 1989 owed much to the Reagan administration's policy belief in the value of

¹For details of the Reagan administration's defence build-up, see Barry P. Posen and Stephen Van Evera, 'Reagan administration defense policy: departure from containment', in Kenneth A. Oye, Robert J. Lieber and Donald Rothchild (eds.), *Eagle Resurgent: The Reagan Era in American Foreign Policy*, Toronto, Little Brown and Company, 1987, pp. 75-114; and Charles W. Kegley Jr. and Eugene R. Wittkopf, *American Foreign Policy: Pattern and Process*, London, Macmillan, 1987, p. 584.

The historians Ned Lebow and Janice Gross Stein, however, counter claims that the SDI project forced the USSR to increase military expenditure to the point of breaking the Soviet economy, thereby ensuring victory for the US in the Cold War. Lebow and Stein argue that Soviet defence spending, although crippling high, did not in fact rise significantly during period of US military build-up under the Reagan administration. They also note that, according to USSR President Gorbachev's own statements, his foreign policy of *perestroika* and pacificism towards the West was motivated more by domestic concerns to restructure the command economy than by the need to respond to US military pressure. Gorbachev was confident that the US would not deliberately attack the USSR, and like previous Soviet leaders had long been aware of the need to reform the structural problems of the economy that had been inherited from Stalin's industrialisation programme in the 1930's, and well before the beginnings of military rivalry with the US. Thus, Lebow and Stein stress that Gorbachev was determined to embark on a reform programme regardless of the Reagan military build-up, and that the SDI initiative, rather than accelerating this process, actually complicated Gorbachev's reform efforts because it strengthened the hand of those domestic critics in the Soviet Union that wished to see a military response to the US's challenge. Richard Ned Lebow and Janice Gross Stein, *We All Lost the Cold War*, Princeton, New Jersey: Princeton University Press, 1994, pp. 369-76.

military intervention that had met with mixed success in the Lebanon (1982-1983), Grenada (1983), and Libya (1986).

The Gulf War of 1990-1991 confirmed for Bush the crucial role of military power in post-Cold War security.² The result of the US's perceived success in the Gulf War was to encourage Bush to lay out in his State of the Union address in 1991 a vision of a 'New World Order' in which national and global security would be guaranteed by collective military intervention under US leadership.³

The lessons of the Gulf War and Bush's vision of military power as the future of global security policy did not go unnoticed in other parts of the world. The perception amongst the defence communities of many middle-ranking and rising powers, such as China, was that military power, and especially technologically advanced military power, was the key to national security in the post-Cold War world.⁴ The consequence of this was that a number of regional arms races were generated in East Asia and the Middle East as states sought to acquire the same types of sophisticated weaponry that the US had employed in the Gulf War.⁵

Even the thinking of the United Nations was affected by the belief in the primacy of military forms of security in the post-Cold War and immediate Gulf War periods. Spurred on by the success of military action in the Gulf War nominally under UN control, and President Bush's apparent enthusiasm for a reformed and reinvigorated UN, one of the first acts of the then new UN Secretary General, Boutros Boutros-Ghali, as laid out in his June 1992 *Agenda for Peace*,

²Stephen E. Ambrose, *Rise to Globalism: American Foreign Policy Since 1938*, London, Penguin Books, 1993, p. 396.

³Robert W. Tucker and David C. Hendrickson, *The Imperial Temptation: The New World Order and America's Purpose*, New York, Council on Foreign Relations Press, 1992, pp. 6-7; Asai Motofumi, 'Pacifism in a new international order', *Japan Quarterly*, vol. 38, no. 2, 1991, p. 137.

⁴S. Chu, *National Security in Transition: The Asia-Pacific Strategic Balance and China's Security Planning in the Late 1980's and Early 1990's*, Unpublished Ph.D. dissertation, George Washington University, 1993, p. 189.

⁵For an appraisal of the arms race in the Middle East after the Gulf War, see Anthony H. Cordesman, *After the Storm: The Changing Military Balance in the Middle East*, Boulder, Colorado: Westview Press, 1993. Descriptions of the Asia-Pacific arms race and the types of weaponry purchased are provided in Barry Buzan and Gerald Segal, 'Rethinking East Asian security', *Survival: The IJSS Quarterly*, vol. 36, no. 2, 1994, pp. 8-9; Michael T. Klare, 'The next great arms race', *Foreign Affairs*, vol. 72, no. 3, Summer 1993, pp. 136-52; Andrew Mack and Desmond Ball, 'The military buildup in the Asia-Pacific', *The Pacific Review*, vol. 5, no. 3, 1992, pp. 197-208.

was to seek the creation of a UN standing force to allow for rapid intervention in the early stages of international conflicts and civil wars.⁶ Boutros-Ghali's permanent UN force failed to materialise, but in its early operations in Somalia between 1992 and 1994, the UN did allow itself to be pushed towards a more aggressive use of its military mandate. What began ostensibly as a peacekeeping mission became in practice one of peace enforcement, with the UN backed by the US in an unsuccessful attempt to impose a settlement on the Somali factions.⁷ In moving towards such a high profile military approach in Somalia, Secretary General Boutros-Ghali and the UN departed from the traditional principles of UN peacekeeping, and accepted to some extent the arguments of defence strategists around the world that the active use of military power can provide one type of practical response to post-Cold War security issues.

The conceptions of security policy and military power that emerged under the Bush administration also were taken up to a certain extent by President Bill Clinton's administration during its first year in office. During the presidential campaign of 1992, Clinton actually succeeded in sounding more aggressive than

⁶The *Agenda for Peace* included the provision of a UN force under the sole authority of the security council which was intended to participate in peacekeeping, peace building and peace enforcement missions. For details on Boutros Ghali's views on peacekeeping and the debate within the UN on the *Agenda for Peace*, see Boutros Boutros-Ghali, 'An *Agenda for Peace*: one year later', *Orbis: A Journal of World Affairs*, vol. 37, no. 3, Summer 1993, pp. 323-32.

Although Boutros Ghali clearly favoured the greater exercise of UN military power he did not lose sight of the fact that military power was not the exclusive answer to post-Cold War security questions. In an interview published in 1993 he stated that: 'The concept of security, which has traditionally been defined in strict military terms, has evolved to encompass the economic, social, and environmental problems that threaten national and international security.' For this interview and Boutros-Ghali's other opinions on security issues, see 'Interview: setting a new agenda for the United Nations', *Journal of International Affairs*, vol. 46, no. 2, 1993, pp. 289-98.

⁷The general principles under which the UN conducted peacekeeping missions up until its involvement in Somalia can be categorised as follows: 1)Obtaining the consent of the parties in a conflict to the presence of UN forces; 2)Striving for impartiality in a conflict, and avoiding taking sides in a conflict; 3)Rejection of attempts to enforce a settlement and the use of force by UN troops for self-defence only. The UN and US operations clearly violated these principles in Somalia as UN forces were sent without the consent of the warring factions, and UN troops, especially US marines, were employed to attack and drive out certain factions, so destroying any pretense of impartiality.

Of course, the UN peacekeeping and linked humanitarian operations in Somalia and Bosnia have also helped to save many civilian lives, and UNTAC in Cambodia (United Nations Transitional Authority in Cambodia) has shown how UN peacekeeping in the post-Cold War era can be successful if sufficient political energy and the traditional principles of the UN are applied. But at the same time, setbacks in other regions have forced the UN to rethink the strategy and command structure of its peacekeeping operations. Anthony Parsons, *From Cold War to Hot Peace: UN Interventions 1947-1995*, London, Penguin Books, 1995, pp. 159-66.

the incumbent administration in advocating US military intervention in Bosnia, and as President-elect he backed Bush's decision to send troops to Somalia.⁸ After taking office in 1993, Clinton continued to support and reinforce multinational peacekeeping efforts in Somalia, and therefore looked set to build upon the Bush vision of US leadership in collective international military action.⁹ The Bush and Clinton administration's support for the UN operation in Somalia and the US's willingness to commit ground troops was largely responsible for the conversion of the UN peacekeeping mission in Somalia into a peace enforcement operation.

However, the military reverses suffered by the US and multinational forces in Somalia cooled the enthusiasm of the Clinton administration towards the type of 'muscular multilateralism' outlined above. These doubts were reinforced by the initial failure of UN and then NATO operations in Bosnia. Even the success of later efforts by NATO to use force in Bosnia and the Dayton Peace Accord since late 1995 have not dispelled doubts within the Clinton administration and the US Congress about foreign engagement, and the problems and costs of military power in resolving post-Cold War security problems, especially when channelled through the agency of the UN peacekeeping and peace enforcement operations.¹⁰ The Clinton administration has, therefore, backed away from the interventionist US-led collective security vision propounded by President Bush only six years previously, and chosen not to intervene militarily in areas such as Liberia, Haiti, and even Albania. This reversal or hesitancy in US policy has compelled civilian and military defence strategists in the US and elsewhere to carry out a general reappraisal of security policy in the post-Cold War era and to

⁸*Newsweek*, 19 October 1992, p. 24.

⁹*Newsweek*, 28 June 1993, p. 10.

¹⁰John D. Isaacs points out five areas in which the US Congress has reservations about US participation in UN peacekeeping operations: 1) Cost and budgetary priorities for the US government; 2) Jurisdictional confusion; 3) Size of US peacekeeping costs; 4) The debate over the need for US military involvement abroad; 5) UN mismanagement of peacekeeping budgets; 6) UN command structure weaknesses; 6) US foreign policy subcontracted to the UN; 6) UN peacekeeping detracts from US military readiness. For details of these areas, see John D. Isaacs, 'The domestic context: American politics and UN peacekeeping', in Selig S. Harrison and Nishihara Masahi (eds.), *UN Peacekeeping: Japanese and American Perspectives*, Washington DC, Carnegie Endowment for International Peace, 1995, pp. 80-82.

question the value that can be attached to military power as always the most viable determinant of security.

The problems of military power as security policy after the Cold War

Arguably, the recent efforts at military intervention made by the UN, the US, NATO, and by Russia in Chechnya have revealed three major difficulties associated with the use of military power in dealing with the security situations produced by the end of the Cold War. The first major area of difficulty is that, even allowing for the constraints that have been placed upon it by political and diplomatic considerations, military power has not shown itself to be readily effective in controlling or resolving security situations such as Somalia and Bosnia.¹¹ This is despite the fact that these situations are highly militarised, and that the UN, the US and NATO have been able to concentrate and employ in these regions the same sophisticated weaponry that crushed Iraqi resistance during the Gulf War. The use of helicopter gunships and massive firepower by the UN and US in Somalia proved impotent when employed against the Somali factions, which held no fixed positions or territory and were able to withdraw easily in the face of overwhelming odds only to regroup later. The near indistinguishability of one faction from another and from the civilian population, meant that concentrations of firepower produced the type of indiscriminate 'collateral' damage that turned civilians against the UN forces and further complicated its tasks. The use of air strikes by NATO in Bosnia confirmed many of the lessons of Somalia and the future shape of post-Cold War conflicts. The 'standoff' weapons and 'smart bombs' of the Gulf War, developed by the US after the Vietnam War to avoid the need to commit US troops to another expensive ground war, when used in Bosnia demonstrated the technical superiority of NATO forces and did damage key Bosnian-Serb military installations. But as the NATO operations continued in Bosnia it became clear that only massive rather

¹¹Adam Roberts, 'From San Francisco to Sarajevo: the UN and the use of force', *Survival: The IISS Quarterly*, vol. 37, no. 4, Winter 1995-96, pp. 18-19.

than the hoped for surgical airstrikes could bring the Bosnian-Serbs to heel, and only at the cost of the type of collateral damage that the weapons had been developed to avoid in the first place. Moreover, it was only by the deployment of large numbers of US and NATO troops in December 1995, and by accepting the risks of involvement in a ground war, that the Bosnian conflict was contained and the Dayton Peace Accord implemented. Russian forces in Chechnya did not have access to all of the most sophisticated weapons that are in the West's arsenal, but the ignominious defeat of its forces in the ex-Soviet Republic, despite the commitment of large numbers of ground troops and superior firepower, has shown that even the unfettered use of military force can be ineffective in achieving the security ends of states in the post-Cold War period. As Martin Van Creveld has argued, much in the same way that the great powers in the 1950's and 1960's came to realise that nuclear weapons were so powerful as to render them useless for dealing with low intensity conflicts, so have these same powers come to realise that they are still 'muscle-bound' in the 1990's when dealing with a resurgence of similar problems after the Cold War.¹²

These types of doubts about military power have revealed a second area of difficulty in its use: namely, questions about its appropriateness and applicability to new post-Cold War security problems. As mentioned above, the crises in Somalia and Bosnia have become highly militarised, but it is also clear that their origins lie in problems of economic dislocation, religion, ethnicity and nationalism, and that these types of problems are ones which cannot be solved or possibly even contained by the use of military power. At the same time, there has emerged a whole new range of low-intensity security threats, such as environmental disasters, economic collapse, diseases and epidemics, drug trafficking, the proliferation of weapons of mass destruction and transnational

¹²Martin Van Creveld, *The Transformation of War*, New York, The Free Press, 1991, p. 194.

terrorism, the causes of which cannot be adequately dealt with by military power alone.¹³

Added to these questions surrounding the effectiveness and appropriateness of military power, the third major area of difficulty associated with its use is the problem of cost. There has been a realisation in the post-Cold War period that although the demise of the Soviet Union has given the US and the Western powers greater freedom to intervene, the military and economic costs of that intervention remain high. The continued costs of military intervention in terms of numbers of civilian and military casualties have been demonstrated by the problems of peacekeeping in Somalia and Bosnia. As described above, the belief at the end of the Gulf War that future wars could be fought largely by relying on air power and high technology weapons with a minimal commitment of troops and limited casualties, as with others in the past that have stressed the potential of air power to win wars, has been disproved by the failure of this strategy in Somalia and Bosnia. The inescapable reality of the peacekeeping operations in Somalia and Bosnia has been that these types of post-Cold War security situations require major commitments of troops and that a high number of civilian and military casualties are inevitable if a military solution is being sought. In many instances, this is a military cost which the US and other developed nations--having grown accustomed to the low casualty rates of the Gulf War--are now unwilling to bear.¹⁴

The economic costs of military intervention have also begun to convince some policy-makers that military power may not be the most suitable means with which to address new types of security problems. The huge cost of the Gulf War, estimated to have cost at least \$50 million a day, has made clear that the financial costs of modern warfare have escalated to the point of almost becoming prohibitive.¹⁵ That the war largely had to be paid for through the contributions of

¹³Fred C. Bergsten, 'The primacy of economics', *Foreign Policy*, no. 87, Summer 1992, p. 24.

¹⁴Bruce W. Nelan, 'What price glory', *Time International*, 27 November 1995, pp. 34-9.

¹⁵Asai Motofumi, 'Pacifism', p. 136.

the US's allies also showed that the economic costs of military intervention have restricted the freedom of even a superpower to mount a large scale military action in the future.¹⁶

Events following the Gulf War have, then, raised doubts about the effectiveness, appropriateness, and costs of military power in relation to dealing with post-Cold War security situations. The combined effect of these doubts and the setbacks in Bosnia and Somalia has been to cause certain elements of the security-planning community to reconsider their evaluation of military power as the most effective tool of security policy available. Clearly no-one within the current US policy-making community is advocating the abandonment of military power as a means for ensuring national security, and in the last resort it remains the most powerful guarantee of national borders and the survival of states. But there are signs that the confidence expressed in military power by the Bush administration and by the Clinton administration in its early stages as the answer to post-Cold War problems of national and global security has now evaporated. The search is on to find new tools of security policy that can supplement or even supersede problematic military ones. The lessons of the Gulf War and the problems of financing it have focused the minds of policy-makers upon questions of economic power and its future role in security policy.

Economic power and global security

Growing doubts about the practicability of military power and a focus upon the importance and potentialities of economic power as a component of security policy is not a new phenomenon. Indeed, the present emphasis upon problems of economics in the US is simply a rediscovery by policy-makers of a trend in security policy that has existed since the early 1970's following the decision of President Richard Nixon's administration to scale down military commitments under the Guam Doctrine of 1969, to seek withdrawal from Vietnam, and to

¹⁶William Pfaff, 'Redefining world power', *Foreign Affairs*, 1990-91, vol. 70, no. 1, p. 37.

prioritise the revitalisation of US economic power through the NEP (New Economic Policy) of 1970.¹⁷

These important beliefs about the primacy of economics were obscured rather than discredited during the period of the second Cold War from the late 1970s until the late 1980s. The Soviet invasion of Afghanistan and limited success for the use of conventional military power by the Reagan administration in Grenada and Libya, distracted the attention of policy-makers away from questions of economic security and back to military ones.¹⁸ However, the renewed Cold War did not halt the economic trends that had been set in motion in the 1970's and did not affect the fundamental importance of economic power to the establishment of national power. Given these conclusions, it is then possible to argue that the conceptions of US security policy which were premised upon military power and articulated by the Reagan and Bush administrations in the 1980's and early 1990's, were actually radical departures from the long term trends of security policy thinking that had been established in the 1970's following the Vietnam War, and which were based upon economic conceptions of power. Thus, viewed from this perspective, President Bush in his 'New World Order' speech may in fact have been outlining a conception of security policy which belonged to the past rather than to the future. In turn, perhaps the Gulf War can be seen not as the shape of future military conflicts to come, but as the last of the old-style conflicts.¹⁹

If the Reagan and Bush military-dominated conceptions of power and security can be regarded as movements away from the longer term and economic dominated trends of thinking about security issues, then it is only natural that with the end of the Cold War policy-makers should have rediscovered the importance of economics as security policy. Even the Bush administration, which had won

¹⁷Marian D. Irish, *US Foreign Policy: Context, Conduct, Context*, New York, Harcourt Brace Jovanovich, 1975, p. 420.

¹⁸Joseph S. Nye Jr., *Bound to Lead: The Changing Nature of American Power*, New York, Basic Books, 1990, p. 176.

¹⁹Michael Mandelbaum, 'The Bush foreign policy', *Foreign Affairs*, vol. 70, no. 1, 1991, p. 12.

the Gulf War and proclaimed a security vision based on military power, began to accept the primacy of economics amongst the components of national power, and started to grope for a policy to restore US economic power in the run-up to the 1993 Presidential elections. Evidence of the Bush administration's acknowledgement of the importance of economics was provided by its more aggressive stance on trade policy towards Japan with threats to apply the Super 301 clause of the 1988 Omnibus Trade Acts, the SII (Structural Impediments Initiative) of 1989; and in other areas, the rushing to complete the signing of the NAFTA free trade agreement in 1992.²⁰

But it is the Clinton administration which has recognised fully the primacy of economics and articulated national interests and security in terms of national economic goals. The importance that Clinton attaches to economic conceptions of power was first revealed by his campaign pledge, 'to elevate economics in foreign policy, [to] create an economic security council similar to the National Security Council.'²¹ The intention of the Clinton presidency to honour this pledge was subsequently shown by the presence in the first administration of Robert Reich as Labour Secretary, one of the chief proponents of industrial policy, and by its determined manoeuvring to place the US at the head of the two NAFTA and APEC trading blocs and thereby reposition the US as the leader of the global economy.²² Moreover, in a major speech in January 1995, the then US Secretary of State, Warren Christopher, stated that:

A core premise of our domestic and foreign policies is that our economic strength at home and abroad are mutually reinforcing. I believe that history will judge this emphasis to be a distinctive imprint and a lasting legacy of the Clinton administration.²³

²⁰William R. Nester, *Power Across the Pacific: A Diplomatic History of American Relations with Japan*, London, Macmillan, 1996, pp. 354-5.

²¹Emily S. Rosenberg, 'Economic interest and the United States foreign policy', in Gordon Martel (ed.), *American Foreign Relations Reconsidered, 1890-1993*, London, Routledge, 1994, p. 37.

²²For examples of Reich's work, see Robert Reich, 'Making industrial policy', *Foreign Affairs*, vol. 60, no. 4, Spring 1982, pp. 852-81; 'Why the US needs an industrial policy', *Harvard Business Review*, vol. 60, 1982, pp. 74-81. The US's pursuit of a greater role in APEC and NAFTA is noted in Akaha Tsuneo and Frank Langdon, 'Conclusion: the post hegemonic world and Japan,' in Akaha Tsuneo and Frank Langdon (eds.), *Japan in the Post-Hegemonic World*, Boulder, Colorado: Lynne Rienner, 1993, p. 270.

²³*Vital Speeches*, 1995, vol. 61, no. 10, p. 293.

In fact, it may even be possible to talk of the rise in Clinton's America of a new type of 'neo-mercantilism', which aggressively pursues free trade and market opening initiatives, whilst at the same time promoting US economic interests within its associated trading blocs.

The view which has emerged under the Clinton administration of economics as the foundation of national strength and security contrasts strongly with that of the Reagan and early Bush administrations which saw military power as primarily fulfilling that role. In part it also helps to explain why the Clinton administration at first backed away from military engagement in areas such as Bosnia, in which it has no immediate national security or economic interest. The diplomatic and political effort that the Clinton administration invested in trade policy during the early years of its first term contrasted strongly with its attempts to avoid involvement in the problem of Bosnia, and illustrated clearly the administration's priorities and interest in national economic security. The emphasis that has been placed upon economics by the Clinton administration, though, has not only served to confirm the view that economics is the foundation of national power and security, but also has renewed interest in economics as a direct instrument of security policy in its own right.

The US has a long tradition of using economic power as an instrument with which to pursue its foreign policy objectives. Amongst the various economic instruments of foreign and security policy it has employed are trade, tariffs, embargoes and boycotts, quotas, and aid, and US administrations have continued to use these instruments with mixed success.²⁴ However, under the Clinton administration there are signs that the US may be growing more reliant than in the past upon economic instruments of power to supplement and even act as a substitute for military power in an era when the costs and effectiveness of military power have come into doubt.

²⁴Graham P. Hastedt, *American Foreign Policy: Past, Present and Future*, London, Prentice Hall, 1991, pp. 239-47.

The Clinton administration has appeared more willing to invoke economic sanctions against those competitor nations that it feels will not reciprocate with it on free trade. To some extent threats of trade wars against Japan and China can be dismissed as political rhetoric or as unrealistic appraisals of the US's ability to damage its competitor's economy without damaging its own. But at the same time, these threats do demonstrate the Clinton administration's awareness of the power that can be derived from the manipulation of the conditions of trade and the primacy of national economic interests.

On a lower micro-economic level, the Clinton administration also seems to be more willing than its predecessor to rely heavily or wholly upon economic instruments of power to deal with specific security problems. Hence, where perhaps Bush and Reagan might have seen political advantage and military practicability in intervening in a situation such as Haiti, the Clinton administration chose ultimately to rely upon economic sanctions rather than military action in order to obtain a favourable outcome. Clearly, Haiti is a relatively minor security problem, but even with regard to larger security issues the instinct of the Clinton administration seems to be to avoid reliance upon military force in favour of economic power. Although the administration has periodically taken limited military action against Iraq such as attacks with conventional explosive Cruise missiles, its overall preference has been to persist with economic sanctions. With regard to Bosnia there was also an initial desire to use economic sanctions to pressure the Serbian side in the conflict, and the embargo on Cuba has remained firmly in place and even intensified in the 1990's with the Helms-Burton Act.²⁵ As will be examined in chapter four, the Clinton administration has also used economic power to both pressure and open up North Korea in the mid-1990's.

The accusation could be made, with some justification, that the Clinton administration's preference for economic sanctions is really only a sign of a lack of political resolve, and the attempt to be seen to be taking at least some kind of

²⁵Edward N. Luttwark, 'Towards post-heroic warfare', *Foreign Affairs*, vol. 74, no. 3, May-June 1995, p. 117.

action in addressing post-Cold War security problems. But while this may be a valid criticism in part, it is equally true also that the administration is attempting to articulate a new vision of security policy which ascribes an equal role to military power and economic power. This type of vision of security policy is consistent with the Clinton administration's preoccupation in seeing economics as the main foundation and manifestation of US national power.

These lessons have begun to influence the security policies of medium and small ranking powers. In much the same way that the US's exercise and attraction to military power during the Gulf War pushed powers in the Asia-Pacific towards a military buildup, so the move away from exclusively military based conceptions of security policy by the US has encouraged other powers to refocus their attention on matters of economic security. The nations of Southeast Asia have long viewed economic power and strength as essential to the maintenance of both internal and external security.²⁶ Chinese policy-makers also seem to have adopted this type of thinking with regard to security policy.²⁷

The aim of this first section has been to examine how in the post-Cold War era conceptions of security amongst policy-makers in the US and other states have begun to change. The chief characteristic of change identified so far is a move away from military to economic conceptions of security. The aim of the following section is to look at Japan, the other economic global superpower, and to trace the ways in which policy-makers have also changed their views of security in the post-Cold War period.

²⁶Pauline Kerr, 'The security dialogue in the Asia-Pacific', *The Pacific Review*, vol. 17, no. 4, 1994, p. 406.

²⁷As Chinese President Jiang Zemin argued in March 1991, 'In today's world, security is an economic and political issue as much as it is a military issue. A security strategy should be a comprehensive national strategy, not simply a military strategy. No country can achieve its security interests solely through military means.' Cited in S. Chu, 'National Security in Transition', p. 195. Reflecting Jiang Zemin's conviction, it now seems China is more willing to safeguard its political and security interests through the exercise of economic power, as shown by its threaten to boycott French goods if it went ahead with arms sales to Taiwan. Weixing Hu, 'China's security agenda after the Cold War', *The Pacific Review*, vol. 18, no. 1, 1995, pp. 128-30.

MILITARY POWER AND JAPANESE SECURITY POLICY AFTER THE COLD WAR

The end of the Cold War and the impact of the Gulf War

During the 1980's and early 1990's, Japanese security policy was perceived by many domestic and international commentators to be moving broadly in line with its alliance partner, the US. Despite the 1947 'peace' constitution and government prohibitions on the use of its military forces, and despite its tradition of seeking to articulate alternative forms of security policy, Japan seemed to be creeping towards a highly militarised security posture similar and, indeed, complementary to that of the US. ²⁸ The Reagan era in the US of increased defence budgets and

²⁸Article 9 of the 1947 'peace' constitution states:

Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat of or use of force as a means of settling international disputes.

In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of the belligerency of the state will not be recognised.

From the mid-1950's onwards, Article 9 has been interpreted by successive Japanese governments as prohibiting the right to maintain forces to wage offensive war, but allowing the maintenance of forces for self defence. The result of this interpretation has been that Japan has avoided the acquisition of the types of offensive weaponry that would provide it with an obvious power projection capacity in the region, such as aircraft carriers and in-flight refueling capabilities. However, the flexibility of interpretation that the constitution has allowed for in the past, means that its role as an obstacle to the expansion by Japan of its security responsibilities in the future is dependent upon the prevailing political will and how far political parties are willing to stretch the limits of interpretation.

In addition to Article 9, the following constitutional interpretations and anti-militaristic principles have limited the extent of Japan's defence contribution to international security. 1) Collective self-defence. The government has maintained that, in accordance with international law and the UN Charter, Japan does possess the right of collective self-defence. But despite the acknowledgement of the possession of this right and the statement of this in the preamble to the 1960 US-Japan security treaty, the government has argued that it cannot exercise the right due to its interpretation of Article 9 of the constitution which only allows for the exercise of the right of individual self-defence. 2) Overseas despatch of the SDF. A 1980 cabinet decision by an LDP government interpreted Article 9 of the constitution as prohibiting the despatch of the SDF overseas only on operations that would require the use of force. But it also noted that the SDF law does not provide for this function. Thus, until the PKO Bill of 1992, the position of the government was that SDF's overseas despatch was not unconstitutional but illegal. 3) The three non-nuclear principles--not to produce, possess, or introduce nuclear weapons into Japan--were established in 1967. The first two principles have been maintained, and strengthened additionally by Japan's ratification of the NPT (Non-Proliferation Treaty) in 1976. But, according to some interpretations, the third principle has been breached by the introduction into or transit through Japanese ports of nuclear weapons on US naval vessels. 4) Bans on the export of arms and defence technology were introduced by the administrations of Satō Eisaku in 1967 and Miki Takeo in 1976. The 1967 measures prohibited the export of arms to communist countries, and the 1976 measures ordered restraint in the case of other countries and prohibited the export of all weapons related technology. In 1983, though, the administration of Nakasone Yasuhiro made an exception to these prohibitions by signing The Exchange of Technology Agreement Between Japan and the United States, which allows for the export of defence related technology from Japan to the US. 5)

military build-up, was paralleled to some extent by the Nakasone era in Japan. Pressure from the US for Japan to end its 'free rider' status and to assume a greater military role in the containment of the USSR following its invasion of Afghanistan in 1979 provided the legitimisation for Prime Minister Nakasone Yasuhiro's administration to scrap the one per cent of GNP ceiling on defence spending in 1987, to increase burden sharing and financial support for US forces stationed in Japan, and to embark on a quantitative and qualitative improvement of Japan's armed forces.²⁹ In addition, these moves by Japan towards a more proactive security policy were reinforced by the agreement of the Zenkô Suzuki administration to assume responsibility for the protection of 1,000 nautical miles of sea-lanes in 1981, which resulted in the even greater integration of Japanese forces into the US's alliance system and strategy in the Asia-Pacific region, and growing technological and military linkages with the US following the signing of the Exchange and Technology Agreement Between Japan and the United States in 1988. It was felt by many commentators that the outcome of these actions would be the further remilitarisation of Japanese security policy and society.³⁰

At the same time, these fears were moderated by the acknowledgement of the fact that Japan's spending still remained low by comparison with most other industrialised nations, that Japan did not attempt to acquire offensive weaponry, such as aircraft carriers, long-range bombers, or nuclear weapons, and that the constitutional restrictions on the overseas despatch of the SDF (Self Defence

The one per cent GNP limit on defence spending established by the Miki administration in 1976. In effect, this prohibition was scrapped by the Nakasone administration which pushed defence expenditure above the 1% limit for the first time in 1987.

For further details of these constitutional constraints and government interpretations: Asakumo Shimbunsha, *Bôei Handobukku 1995*, Tôkyô, Asakumo Shimbunsha, 1995, pp. 388-456.

²⁹Patterns of recent Japanese defence expenditure are outlined in Peter J. Katzenstein and Okawara Nobuo, *Japan's National Security: Structures, Norms and Policy Responses in a Changing World*, East Asia Program, Cornell University: Ithaca, 1993, p. 159; Yamamoto Yoshinobu and Etô Shinkichi, *Soôgô Anpo to Mirai no Sentaku*, Tôkyô, Kôdansha, 1991, p. 414.

³⁰Bernard K. Gordon, 'Loose cannon on a rolling deck? Japan's changing security policies', *Orbis: A Journal of World Affairs*, 1979, vol. 22, no. 4, pp. 967-1005; Maeda Tetsuo, 'A dangerous shift in defence policy', *Japan Echo*, vol. 13, no. 1, Spring 1986, pp. 76-80; Maeda Hisao, 'Opening the door to a military buildup', *Japan Echo*, vol. 14, no. 2, Summer 1987, pp. 66; Glenn D. Hook, 'The erosion of anti-militaristic principles in contemporary Japan', *Journal of Peace Research*, 1988, vol. 25, no. 4, pp. 381-94; Peter J. Katzenstein and Okawara Nobuo, 'Japanese security issues', in Craig G. Garby and Mary Brown Bullock (eds.), *Japan: A New Kind of Superpower?*, Baltimore, The Johns Hopkins University Press, 1994, pp. 53-76.

Force) remained in place. However, what events of the 1980's did show was that under Nakasone and Suzuki, many policy-makers in the governing LDP (Liberal Democratic Party) were increasingly and more openly coming to associate national security with an expansion of Japan's own military power.

The events of the Gulf War pushed Japanese policy-makers further towards conceptions of security dominated by military power. Under pressure from the US and its allies to participate in the multinational effort in the Persian Gulf in some way other than by the provision of economic assistance, the government of Prime Minister Kaifu Toshiki began to look for ways to make a 'human' contribution to the allied forces. In practice this meant the despatch of the SDF and acceptance of the argument that military power was the most effective contribution that Japan could make to international security.³¹ The main attempt during the Gulf War to despatch the SDF was the United Nations Peace Cooperation bill (*Kokuren Heiwa Kyôryoku Hôan*), sponsored by Ozawa Ichirô, the then Secretary General of the LDP, and submitted to the Japanese Diet in October 1990, and which if passed would have allowed the limited despatch of the Japanese Self Defence Forces overseas in UN operations.³² Although this bill was defeated, and during the Gulf War the government was frustrated in attempts to send the Japanese SDF (Self

³¹ The government's first attempt to send the SDF overseas was the use of Article 100, Section 5 of the SDF Law to send ASDF (Air Self Defence Force) aircraft to assist in the transport of refugees. This article had been adopted originally in 1986 to allow the SDF to transport VIPs overseas. By a Special Cabinet Order on 29 January 1991, five ASDF C-130 transports were put on standby. Although the Order was eventually annulled in April of the same year after no requests for the planes were forthcoming, the use of the Special Cabinet Order has been viewed as another attempt to send the SDF overseas without the consultation of the Diet and despite its rejection of the United Nations Cooperation bill the previous October. Glenn D. Hook, *Militarization and Demilitarization in Contemporary Japan*, London, Routledge, 1996, pp. 88-89.

For general descriptions of Japanese policy-making in this period, see Inoguchi Takashi, 'Japan's response to the Gulf crisis: an analytic overview', *The Journal of Japanese Studies*, vol. 17, no. 2, Summer 1991, pp. 257-73, and Courtney Purrington and A. K., 'Tôkyô's policy responses during the Gulf War', *Asian Survey*, vol. 31, no. 4, April 1991, pp. 307-23.

³²The United Nations Peace Cooperation bill proposed that Japan should create a UN Peace Cooperation Corps to support UN peacekeeping operations based on resolutions of the Security Council. The Peace Cooperation Corps was to be composed of volunteers from various agencies, including the SDF. The responsibilities of the Corps were to monitor truces; to provide administrative assistance to governments after conflict; to help manage and monitor elections; to provide transport, communications and medical support; to rescue refugees; and to help in reconstruction. The bill was rejected after opposition in the Diet by the opposition parties and poor preparation by the government.

Defence Forces) overseas, later on and after the end of hostilities in the Persian Gulf the government was able to despatch minesweepers to the Gulf.³³

The failure to pass the bill and the international criticism that Japan had been subject to over its purely financial contribution to the war effort, strengthened the determination of sections of the LDP to amend the constitution and the SDF Law in order to allow the despatch of the SDF on UN peacekeeping missions.³⁴ The government established a committee under Ozawa (known as the Ozawa Committee) which concluded that it was possible for Japan to participate in multilateral and UN forces by adoption of the concept of 'international security', or *kokusai anzen hoshô*--really coded language for the exercise of the right of collective self-defence.³⁵ However, as international debate shifted to focus on UN peacekeeping, the issue of collective security and the constitution were shelved. Instead, the government's energies were concentrated on the SDF Law, and in June 1992 the PKO Bill (Peacekeeping Operations) was subsequently passed. This led to the overseas despatch for the first time of the SDF to participate non-combat peacekeeping operations in Cambodia between October 1992 and September 1993. Although the PKO Bill placed more restrictions upon the despatch of the SDF than certain factions of the LDP may have hoped for, it did mark progress in Japan's development of a more prominent military role, and demonstrated that certain LDP politicians were in accord with Bush's vision of future international security based upon collective military intervention.³⁶ Thus, as Yamaguchi Jirô comments with regard to the United Nations Peace

³³For the background and execution of the minesweeping operation, see Peter J. Woolley, 'Japan's 1991 minesweeping operation: an organizational response,' *Asian Survey*, vol. 36, no. 8, August 1996, pp. 804-17.

³⁴Peter J. Herzog, *Japan's Pseudo Democracy*, Folkestone, Japan Library, 1993, p. 234.

³⁵Tanaka Akihiko, 'The domestic context: Japanese politics and UN peacekeeping', in Selig S. Harrison and Nishihara Masahi, *UN Peacekeeping: Japanese and American Perspectives*, p. 95.

³⁶The conditions of the PKO Bill for Japan's participation in UN peacekeeping operations are as follows: 1) agreement on a ceasefire should have been reached by all parties in the conflict; 2) the parties involved in the conflict should give their consent to the deployment of peacekeeping forces and the participation of Japan in the operation; 3) the peacekeeping force shall remain impartial, and not favour any party in the conflict; 4) should any of the preceding guidelines be broken, Japan may withdraw its contingent; 5) the use of weapons is limited to that necessary to protect directly the lives of personnel. Hence, the SDF troops despatched to Cambodia were engaged in non-combat operations such as road repair and construction.

Cooperation bill, '[it] implanted in the realm of public debate the concept that Japan's contribution to international security could be linked to the despatching of the Self Defence Forces in one form or another.'³⁷

The continuing debate on security in Japan in the mid and late-1990's

The trauma of the Gulf War and the changing realities of post-Cold War security environment that it revealed have continued to impact upon the security debate amongst Japanese policy-makers during the 1990's. In Japan, the strategic certainties of the Cold War period have been replaced by the same series of non-specific and low intensity threats that have troubled the US.³⁸ A series of potentially threatening phenomena, including environmental disasters, economic crises, narcotics, the proliferation of weapons of mass destruction, and transnational terrorism have also been identified by the Japanese MOFA (Ministry of Foreign Affairs) in the post-Cold War period.³⁹ With the collapse of the USSR, the actors likely to threaten Japan's security have also become unclear. The still highly militarised Russian Far East remains a concern, and the modernisation of China's military has generated the same types of discussion in Japan as in the other countries of the Asia-Pacific region about the potential threat from China. The rise of the North Korean nuclear crisis, as will be seen in chapters four to six, has also had an important influence on the Japanese security debate. Finally, added to all this, the debate on security in Japan has been complicated by the questions about the future of the US-Japan alliance. The alliance's value has come to be questioned from various perspectives, as specific threats to Japan's security have become fewer, as US-Japan trade friction has grown, and as some policy-makers have sought for Japan a new role in security free of what they see as the outdated domination of the US. This dissertation will

³⁷Yamaguchi Jirô, 'The Gulf War and the transformation of Japanese constitutional politics', *The Journal of Japanese Studies*, vol. 18, no. 1, Winter 1992, p. 166.

³⁸Sakanaka Tomohisa, 'Japan's changing defence policy', in Ron Matthews and Matsuyama Keisuke (eds.), *Japan's Military Renaissance?*, London, St. Martin's Press, 1993, p. 76.

³⁹Ministry of Foreign Affairs, *Diplomatic Bluebook*, Tōkyō, Ministry of Foreign Affairs, 1993, pp. 108, 110-11, 118.

in fact argue that the US-Japan military-alliance system has been strengthened in the post-Cold War period, but at this point it is important to note that the debate on how to, or indeed whether to, preserve the alliance has shaped the overall debate on security in Japan.⁴⁰ Triggered by the Gulf War and given further momentum by the unfolding events of the post-Cold War period, this debate has produced concrete changes in military security policy of the Japanese government and the domestic political environment that underpins it.

Changes in the domestic political environment have occurred because of the collapse of the 1955 political system and LDP one-party rule brought about by the defection in 1992 and 1993 of groups of LDP members to form a number smaller conservative political parties.⁴¹ The fragmentation of the conservative parties was

⁴⁰Examples of commentators who see Japan fulfilling a greater security role alongside the US in the post-Cold War period are Akaha Tsuneo, 'Japan's security policy in the post-hegemonic world', in Akaha Tsuneo and Frank Langdon, *Japan in the Post-Hegemonic World*, p. 103; Norman D. Levin, 'Prospects for US-Japanese security cooperation', in Danny Unger and Paul Blackburn (eds.), *Japan's Emerging Global Role*, Boulder, Colorado: Lynne Rienner, 1993, p. 82, and Yamamoto Yoshinobu and Etô Shinkichi, *Sôgô Anpo*, p. 586. For an example of a view which sees Japan as searching for a security policy increasingly independent of the US, see Valerie Shimizu-Niquet, 'Japan's new strategy: a new menace?', *The Pacific Review*, vol. 7, no. 2, 1994, pp. 163-70.

⁴¹The LDP's monopoly on power was broken first by the splitting off from it of three new parties in 1992 and 1993--the Japan New Party (Nihon Shintô) under the leadership of Hosokawa Morihiro (formed 22 May 1992); the Sakigake (Harbinger Party) under the leadership of Takemura Masayoshi (formed 2 June 1992); the Japan Renewal Party (Shinseitô) under the leadership of Hata Tsutomu and Ozawa Ichirô (formed 23 June 1993)--and then by the LDP's subsequent defeat in the House of Representatives Diet elections in July 1993. The LDP's failure to gain a majority allowed the creation on 9 August 1993 of a coalition of the LDP splinter parties and the JSP, engineered by Ozawa and under the premiership of Hosokawa. Rumours of financial scandal forced Hosokawa to step down in April 1994, to be replaced by Hata later in the same month. But the coalition proved impossible to sustain due to differences between the SDP and the other parties over tax reforms and the possible imposition of sanctions on North Korea. The SDP's abandonment of the coalition before the formation of the Hata government meant that the new government collapsed by June of the same year. In the same month a replacement coalition was formed, this time consisting of the rather unlikely bedfellows of the LDP, SDP, and the Sakigake. This coalition lasted until the House of Representatives Diet elections of October 1996, and was led from June 1994 until January 1996 by the SDP's leader Murayama Tomiichi, and from January 1996 until the October elections of the same year by the LDP's Hashimoto Ryûtarô.

During the period of the LDP-SDP-Sakigake coalition, the opposition parties attempted to restructure. On 10 December 1994, the Japan New Party, Japan Renewal Party, and the Clean Government Party (Kômeitô) merged to form the New Frontier Party, led initially by the former LDP prime minister Kaifu Toshiki, and then from December 1995 by Ozawa. In September 1996, as the House of Representatives elections approached, a number of Diet members split from the SDP and Sakigake to form the new centrist Japan Democratic Party under the joint leadership of Hatoyama Yukio and Kan Naoto.

The LDP came close to winning a majority in the House of Representatives elections of 1996, and for the first time since 1993 the LDP was able to form a single party government. The SDP and Sakigake already hit by defections to the DPJ, suffered heavy losses in the elections, to be left with only fifteen and two seats respectively, compared with seventy and thirty five seats after the 1993 elections. The NFP did not make the gains that it had hoped for before the elections, actually dropping from 160 to 156 seats, but it did consolidate its position as the main opposition party, so

ostensibly the result of dissatisfaction over the LDP's handling of domestic issues such as the political corruption revealed by the Sagawa Kyûbin scandal and the related need for electoral reform. But the break-up of the LDP was also motivated to some extent by the desire of some former LDP members, the most notable of which was again Ozawa Ichirô, to create the domestic political conditions which would allow Japan to make a greater contribution to international security than was possible at the time of the Gulf War. For Ozawa this has meant the investigation of constitutional change to allow for an expanded military role for Japan in UN peacekeeping operations, the despatch of the SDF overseas, and its possible involvement in combat operations. The splinter conservative parties, with cooperation from the JSP (Japan Socialist Party; later to become the Social Democratic Party) and the smaller parties were able to form a short-lived coalition between August 1993 and April 1994. This coalition succeeded in passing measures on electoral reform, but collapsed before the issues of Japan's international contribution could be addressed. The JSP then entered into a coalition with the LDP in June 1994, whilst the conservative parties regrouped and merged to form eventually the NFP (New Frontier Party, or in Japanese the *Shinshintô*), which came under the leadership of Ozawa in January 1996. The LDP-JSP coalition lasted until the elections of October 1996, and then was replaced by a LDP single-party government.

As a result of these changes in the domestic political situation the security debate in Japan has reached an important new stage. The degree of support within the NFP opposition for Ozawa's vision of an enhanced military role for Japan as its contribution to international security is uncertain, and following the elections

confirming the move towards a conservative two-party system in Japan. However, soon after the elections the NFP was damaged by Hata's decision in December 1996 to leave to form his own party. The DPJ meanwhile managed to hold its position after the elections, with a respectable figure of fifty two seats in the House of Representatives, and one of the most interesting features of the election was a resurgence in support for the JCP which captured twenty six seats.

For an excellent account in Japanese of the end of the 1955 political system in Japan and LDP rule, see Kitaoka Shinichi, *Jimintô: Seikentô no 38nen*, Tôkyô, Yomiuri Shimbunsha, 1995, pp. 228-73. For an account in English: Neil Renwick, *Japan's Alliance Politics and Defence Production*, London, Macmillan, 1995, pp. 151-9.

of October 1996 the NFP has also shown signs of fracturing on the issue of security. Some commentators have seen Ozawa as a false internationalist, bent on the remilitarisation of Japan, and manipulating the domestic political scene to achieve this end over the long-term.⁴² Others, including Ozawa himself, portray NFP policy in a less radical light. They argue that it is only natural that Japan as an important global power and developed democracy should act to support the international community by the commitment of men as well as money to any future military crisis. Ozawa, setting the example of other Western nations as the criteria to judge by, defines this new military role for Japan as a 'normal' one.⁴³ In order to carry out this role without intimidating its neighbours, it is argued, Japan should debate openly matters of security and establish firm constitutional rules to both free-up and set limits to the use of Japan's military power. The policy of Ozawa and the NFP on security policy is, then, both controversial and at times opaque. But what is clear is that, similar to the period of the Gulf War and the United Nations Peace Cooperation bill, even though many of Ozawa's policies have not been directly put into action or become government policy, they have influenced the parameters of the debate on security in Japan in the 1990's. Ozawa has indeed been able to influence the debate by his role in the restructuring of the Japanese political scene. For despite being unable maintain the coalition government in 1993 to 1994, and the NFP failing to improve on the number of its Diet seats in the 1996 elections, the rise of a new conservative party in the shape of the NFP, and the subsequent drop in support for the SDP, coupled with the

⁴²For these types of arguments that see Ozawa's brand of conservatism as leading to a dangerous remilitarisation of Japan, see Asai Motofumi, *Shinhoshushugi: Ozawa Shintô wa Nihon o Doko e Michibiku ka*, Tôkyô, Kashiwashobô, 1993, pp. 67-162; 'Sekai jôsei o dô miru ka', in Maeda Tetsuo (ed.), *Jieitai o Dô Suru Ka*, Tôkyô, Iwanami Shinsho, 1995, pp. 52-3. For a more positive evaluation of Ozawa's vision on security: Edward W. Desmond, 'Tchirô Ozawa: reformer at bay', *Foreign Affairs*, vol. 74, no. 5, September-October 1995, pp. 117-31.

⁴³Ozawa Ichirô, *Nihon Kaizô Keikaku*, Tôkyô, Kôdansha, 1993, pp. 127-37. For concise examinations in English of Ozawa's political vision and impact on domestic politics, see David Williams, *Ozawa Ichirô: The Making of a Japanese Kingmaker*, February 1996, East Asian Research Centre, School of East Asian Studies, University of Sheffield; Ôtake Hideo, 'Forces for political reform: the Liberal Democratic Party's young reformers and Ozawa Ichirô', *Journal of Japanese Studies*, vol. 22, no. 2, Summer 1996, pp. 269-94. In Japanese, an examination of Ozawa's career and thinking, and a lengthy interview with the man himself, can be found in Asahi Shimbunsha Seijibu, *Ozawa Ichirô Tanken*, Tôkyô, Asahi Shimbunsha, 1993.

continued power of the LDP, has ensured the move towards the creation of a two party conservative political system to replace the 1955 system. Hence, as a result of Ozawa's dealings, Japan now has two parties committed to the overseas despatch of the SDF and which increasingly equate Japan's international contribution with some kind of military power, although the extent and speed of the move towards this policy differs between the two parties. Ozawa's part in the break-up of the 1955 political system has also meant that the traditional guardian against the SDF's overseas despatch and the remilitarisation of Japan, the SDP, has been forced to abandon its principles on security, and then has been eliminated from its role as the main opposition party. After joining the coalition government with the LDP, on 20 July 1994 the SDP broke its own post-war 'taboo' on security by acknowledging for the first time the constitutionality of the SDF, and has since become coopted into LDP policy on many defence issues. The catastrophic defeat of the SDP in the October 1996 elections may not spell the complete end of SDP influence on the security debate as it restructures and readheres to its traditional policies, but for the time being the defeat of its ideology and the reduction in its political strength has removed one more obstacle towards an increased military role for Japan in the post-Cold War era. Meanwhile the other smaller opposition parties that have emerged in the wake of the collapse of the SDP, such as the DPJ (Democratic Party of Japan), although more moderate on issues of security, look set to support an expanded role for the SDF in the US-Japan alliance and regional security.

Ozawa has also been able to influence LDP policy and the wider debate on security in the mass media. While the LDP is far more cautious than the NFP in its pronouncements on security policy and highly sensitive to the domestic and international criticism engendered by any attempt to expand the role of the SDF, it is clear that certain elements of the LDP are sympathetic to their former Secretary General's view and are not above helping to propagate further the debates on security that the NFP initiates, with the aim of preparing and

conditioning public opinion for the incremental expansion in the SDF's military role that is the hallmark of LDP policy on security. The most notable examples of this type of situation whereby the LDP and NFP debates on security feed off and mutually reinforce each other has been the discussion on collective security and a Far East contingency in 1996, which will be explored in detail in chapter six. Finally, the ability of Ozawa and his supporters to shake up the debate on security in Japan has been demonstrated by the debates on constitutional revision that have periodically hit Japan since the Gulf Crisis and the Ozawa Committee, and which have been promoted by Ozawa's book laying out his vision for Japan, *Nihon Kaizô Keikaku* (Blueprint for a New Japan). Thus, the *Yomiuri Shimbun*, a leading Japanese newspaper reputedly close to Ozawa, produced in 1992 and 1994 a controversial proposal for a revision the constitution, which affirmed the existence of the SDF and contained an article on 'International Cooperation' to allow the despatch of the SDF overseas.⁴⁴ Both the debate on collective security and constitutional revision look set to end in stalemate, but again the very existence of these debates has shown that among certain sections of policy-makers the political will may be growing to legitimise a greater military role for the SDF.

Apart from the effect on the debate on security between the political parties and mass media, the continued shock of the Gulf War and the changing post-Cold War security situation have also fed through into official government policy. Japanese policy was generally slow to react to the end of the Cold War, and even as late as 1991 the USSR was still designated as the main threat for Japanese security in the Defence Agency's *Defense of Japan* white paper. However, changes in Japanese military security policy were put in train with the publication in August 1994 of the report of the Prime Minister's Advisory Group on Defence, or Higuchi Report, which will be examined more fully in chapter six. The

⁴⁴A brief description of the *Yomiuri Shimbun*'s report and its main points are contained in: *Yomiuri Shimbun* Constitutional Studies Group, 'A proposal for a sweeping revision of the constitution', *Japan Echo*, vol. 22, no. 1, Spring 1995, pp. 26-29.

Higuchi report was significant because it called for Japan to readapt its traditional defence policy to the post-Cold War security situation. It was to do this not only by strengthening cooperation with the US, but also by rationalising the SDF to make it more flexible to deal with new low intensity conflicts, by the taking of initiatives to increase support for UN peacekeeping operations and by promoting multilateral security dialogue in the Asia-Pacific Region.⁴⁵

Security planners in the government, represented by the MOFA (Ministry of Foreign Affairs) and the Defence Agency, have responded to these demands for new defence and security initiatives by authorising the participation of the SDF in peacekeeping operations in Mozambique from March 1993 to December 1994, in Kenya and Zaire to assist Rwandan refugees from October to December 1994, and in the Golan Heights since early 1996. Demands for greater Japanese participation in peacekeeping missions may also grow as it seeks a permanent seat on the UN Security Council. The MOFA, supported by politicians from all parties, has also emerged as an important sponsor of multilateral security dialogue with its proposal in 1991 that the ASEAN-PMC (Association of Southeast Asian Nations-Post Ministerial Conference) should become a 'forum for political dialogue' leading to the setting up in 1993 of the ARF (ASEAN Regional Forum) as the first multilateral governmental body in the Asia-Pacific to discuss security concerns.⁴⁶ Evidence of the expanded range and scope of Japanese military activity has also been provided by the SDF's continued participation in RIMPAC (Rim of the Pacific) exercises with the US and South Korea, and the Japanese government's steady promotion at the lower sub-regional level of security dialogue with the ASEAN nations, South Korea, and China.⁴⁷

This brief overview of developments in Japanese security policy in the late Cold War and post-Cold War period demonstrates, then, that its military aspects

⁴⁵Advisory Group on Defense Issues, *The Modality of the Security and Defense Capability of Japan: The Outlook for the 21st Century*, Tōkyō, Ōkurashō Insatsukyoku, 1994, pp. 43-5.

⁴⁶Interview with MOFA official, Tōkyō, 3 December 1996.

⁴⁷For details, see Christopher W. Hughes, 'Japan's subregional security and defence linkages with ASEANs, South Korea and China in the 1990s', *The Pacific Review*, vol. 9, no. 2, 1996, pp. 229-50.

have come increasingly to the fore. The emphasis on a military contribution to security evident under the Nakasone administration has been accelerated by the end of the Cold War and the Gulf War. The political and public debate on security has come to sanction a greater military role for Japan, and even though Ozawa's supporters look unlikely to gain power in the immediate future, his vision of Japan as a 'normal' country in its watered-down version has set the agenda for much of the thinking about security in post-Cold War Japan. Changes in policy-making opinion in Japan have produced government backing for new security role for Japan in UN peacekeeping operations, in multilateral security, and, as will be seen, the US-Japan alliance. The extent of the changes in Japan's security policy should not be overstated, given that Japanese defence budgets in the post-Cold War, in contrast to many other Asia-Pacific countries, have continued to rise at a slower rate, and that most of the constitutional restrictions on Japan's military activity remain in place.⁴⁸ The PKO Bill was a radical change, but the natural caution of most policy-makers in Japan and the culture of anti-militarism among the general population means that any more changes in Japan's defence role, barring another major global or regional security crisis, are likely to remain incremental.⁴⁹ Nevertheless, it is clear that since the end of the Cold War, the strongest trend to emerge in Japanese security policy-making is one which has mirrored to some extent the conceptions of security in the US following the Gulf War, and has thus looked to carve out a greater role for Japan in national and global security based on the exercise of military power, either independently by the despatch overseas of the SDF or in cooperative security arrangements with the US and other regional powers.

⁴⁸Fiscal restraints have meant that the government's 1991 Midterm Defence Buildup Plan and the general defence budget has been under pressure from all political parties, backed by the Japanese Ministry of Finance. For details of these budget battles, see Eugene Brown, 'Japanese security in the post-Cold War era: threat perceptions and strategic options', *Asian Survey*, vol. 34, no. 5, May 1994, pp. 438-40. The declining trend in Japanese defence expenditures is described in Hartwig Hummel, 'Japanese military expenditures after the Cold War: the 'Realism' of the peace dividend', *Australian Journal of International Affairs*, vol. 50, no. 2, 1996, pp. 135-55.

⁴⁹Thomas U. Berger, 'From sword to chrysanthemum: Japan's culture of anti-militarism', *International Security*, vol. 17, no. 4, Spring 1993, pp. 119-50.

This trend emphasising the gradual remilitarisation of Japanese security policy has at times seemed relentless and unstoppable. However, it is also clear that, just as in the US under the Clinton administration, there exists in Japan a counter-trend in security policy which stresses alternative conceptions of security revolving around notions of economic power. The next section will examine these traditions of alternative security policy in Japan, and how they have reacted to the end of the Cold War and sought to outline another path to security reliant chiefly not upon military power, but on economic power.

ECONOMIC POWER AND JAPANESE SECURITY POLICY

Economic security policy during the Cold War

The tradition in Japan of seeing economic power as the foundation of national power and as an instrument of security policy is a relatively old one. The long held conception of Japan as resource-poor country and an economically vulnerable country has meant that Japan's security policy from the Meiji period until the modern era has been driven by the search for economic security.⁵⁰

In the immediate post-war period, Japanese policy-makers were quick to realise that future Japanese power would have to be expressed through economic rather than through military power. Japan's crushing defeat and the experience of the atomic bombings at Hiroshima and Nagasaki left the general Japanese population, Japanese intellectuals, and Japanese politicians with a suspicion of the utility of military power as a means of ensuring national security. The intellectual and political debate over pacifism was one expression of this suspicion of military power, and the socialist party's opposition to the SDF and US-Japan alliance during the Cold War meant that it was supportive of alternative forms of security policy, including pacifism, neutralism and the use of economic power.⁵¹ LDP

⁵⁰John Crowley, *Japan's Quest for Autonomy: National Security and Foreign Policy, 1930-1938*, Princeton, New Jersey: Princeton University Press, 1966, p. xvi.

⁵¹J. A. A. Stockwin, *The Japanese Socialist Party and Neutralism: A Study of a Political Party and its Foreign Policy*, London and New York, Cambridge University Press, 1968.

conservative politicians during this period exhibited a wide variety of views on the utility of military power, but also paid great attention to the possibilities of economic power in the service of security policy. For instance, the Yoshida doctrine did not deny the utility of military power, and merely intended to entrust the role of exercising military power for security purposes to the US.⁵² But its concentration upon rebuilding the Japanese economy and economic growth set in a motion a train of thought concerning the primacy of economic power that has persisted into the 1990's. The 'economism' policies of Ikeda Hayato were partly an attempt to escape from the uncomfortable problems of military security and alliance politics brought about by the Security Treaty crisis of 1960, but also an attempt to reformulate notions of national power in the language of economics.⁵³ Arguably, both the Yoshida doctrine and the discourse of economism led to the strengthening of Japanese conceptions of security that attempt to give primacy to economic power and to minimise military power. The development of this type of thinking in Japan about security matters can be seen by the comments of the then Japanese Foreign Minister, Takeo Fukuda, in 1972, when he stated that:

We wish to employ our own economic strength to gain an increasing voice in the international community. The tradition was that a nation used

⁵²The so-called Yoshida doctrine refers to the long-term vision of two-time Prime Minister Yoshida Shigeru (1946-1947, 1948-1954) for Japan's reemergence as a independent power after the Occupation period. In essence, Yoshida proposed that the emperor system should be preserved, communism contained in Japan, and the energies of the country concentrated upon the reconstruction of the economy. Although not overly fearful of communist China and wary of becoming dragged into continental involvement in the Korean War, Yoshida realised that the only way for Japanese sovereignty to be reestablished was to cooperate with the US and to conclude the US-Japan Security Treaty in September 1951, even if was to be at the cost of a partial peace with the other World War II combatants. For an explanation of Yoshida's views on security, see John Welfield, *An Empire in Eclipse: Japan in the Postwar American Alliance System*, London, Athlone Press, 1988, pp. 37-41. For an examination of the differing interpretations of the background to the US-Japan Security Treaty of 1951, see Toshishita Narahiko, *Anpo Jōyaku no Seiritsu*, Tōkyō, Iwanami Shinsho, 1996.

⁵³The mass protests over the signing of the revised Treaty of Mutual Cooperation and Security between the United States and Japan in 1960 rocked the LDP government and forced the eventual resignation of Ikeda's predecessor as prime minister, Kishi Nobusuke. In order to restore confidence in the government and to escape from what Masumi Junnosuke has called the 'nightmare of the security treaty crisis', Ikeda embarked on an income doubling plan to raise the annual economic growth rate to nine per cent. The concept of this plan and the subsequent National Comprehensive Development Plan were to lay the foundations for Japan's rapid economic growth in the 1960's. Masumi Junnosuke, *Contemporary Politics in Japan*, Berkeley and Los Angeles: University of California Press, 1995, pp. 64-8.

its economic power to become a military power, but this is not the case with us today.'⁵⁴

To a certain extent, the comments of Fukuda and the type of thinking about security policy that he represents could be criticised as vague and containing an element of reality-denial, given the fact that such thinking only had been made possible in the first place by the luxury of having entrusted to the US the role of protecting Japan from the military realities of the Cold War. However, it is also arguable that Japanese policy-makers when formulating these conceptions of security were really only recognising the same realities of the international situation that their US counterparts were beginning to recognise in the 1970's, or, as William Nester comments, 'Tokyo's was the first government to understand that military power was becoming increasingly irrelevant in an increasingly interdependent world.'⁵⁵

Moreover, from these early beginnings, Japanese policy-makers went on to formulate more detailed conceptions of the role of economic power within security policy. The concept of Comprehensive National Security Policy (*Sôgo Anzen Hoshô*) emerged during the administration of Ôhira Masayoshi (1978-1980), and was adopted as national policy in December 1980 under his successor Suzuki Zenkô with the establishment of a new Comprehensive National Security Council. Comprehensive National Security Policy was the first conscious attempt to attach a specific security function to economic power. Under the original concept economics was to assume an equal role in national security alongside diplomatic and military policy.⁵⁶ The early conceptions of Comprehensive National Security focused mainly on economic security as related to ensuring the supply of vital metals, energy and food.⁵⁷ But the identification of economics as

⁵⁴Cited in Frank Langdon, *Japan's Foreign Policy*, Vancouver, University of British Columbia Press, 1973, p. 2.

⁵⁵William R. Nester, *American Power, The New World Order and the Japanese Challenge*, New York, St. Martin's Press, 1993, p. 10.

⁵⁶Akaha Tsuneo, 'Japan's comprehensive security policy: a new East Asian environment', *Asian Survey*, vol. 21, no. 4, April 1991, p. 325; Sôgô Anzen Hoshô Gurûpu, *Sôgô Anzen Hoshô Senryaku*, Tôkyô, Ôkurashô Insatsukyoku, 1980, pp. 65-78.

⁵⁷J. M. W. Chapman, R. Drifte and I. Gow, *Japan's Quest for Comprehensive Security*, London, Pinter Publishers, 1983, pp. 151-217.

one of the key components in security policy led to its assumption of an even greater role in security thinking.

Comprehensive National Security and the placing of economics within it was criticised by many inside and outside Japan as simply being a means to further Japan's own economic interests and to evade international military responsibilities. For example, the late Kôzaka Masataka, an eminent scholar of international relations and an original member of the study group that devised the concept under government direction, later claimed that, 'Though excellent in theory, it [a comprehensive security capability] has actually been an excuse, even a lie, to avoid greater defence efforts.'⁵⁸ Others have taken an alternative tack, and have criticised the concept of comprehensive national security for its lack of conceptual clarity and as a pretext for the extension of Japan's military power. Comprehensive National Security has been seen as making the remilitarisation of Japanese security policy more palatable for the Japanese public by cloaking this process in the appealing language of economic security.⁵⁹ Critics point out that the presence of such 'realist' thinkers as Kôzaka Masataka and Inoki Masamichi in the study group undermines its credentials as a truly alternative look at security, note that the Comprehensive National Security Council has never really functioned effectively, and are suspicious of the enthusiastic adoption of the concept by politicians regarded as 'hawkish' on defence matters, such as Nakasone.⁶⁰

But it is apparent that despite these criticisms the concept of Comprehensive National Security and the importance of economic power has taken root in much

⁵⁸Cited in Kenneth B. Pyle, 'The burden of Japanese history and the politics of burden sharing', in John H. Makin and Donald C. Hellmann (eds.), *Sharing World Leadership? A New Era for America and Japan*, Washington DC, American Enterprise Institute for Public Policy Research, 1989, p. 62.

⁵⁹Watanabe Osamu, for instance, argues that the report on Comprehensive Security's emphasis on the procurement of economic resources demonstrates the attempt to expand Japan's security role beyond its own territory, and, therefore, the continuity of pre-War and post-War Japanese imperialism. Watanabe Osamu, *Gendai Nihon no Teikokushugika: Keisei to Kôzô*, Tôkyô, Ôzûki Shoten, 1996, pp. 245-9.

⁶⁰Dennis T. Yasutomo, *The Manner of Giving: Strategic Aid and Japanese Foreign Policy*, Lexington, Massachusetts and Toronto: Lexington Books, 1986, pp. 35-6.

of mainstream Japanese thinking about security. Even as late as 1994 the Prime Minister's Advisory Group on Defence Issues was still advising that Japan should lay out a vision of security, 'making full use of all policy means, such as diplomacy, economy and defence. That is to say it is necessary to build a coherent and comprehensive security policy.'⁶¹ Moreover, despite attempts by some policy-makers in the 1980's and early 1990's to raise the profile of Japan's military contribution to international security, economic conceptions of security have continued to develop and remain prominent in Japanese security policy.⁶² In particular, the possibility that economic power may be used for security purposes has been made clear by Japan's Official Development Assistance (ODA) policies. As will be discussed in chapter three, Prime Minister Suzuki, the first Japanese premier to approve the concept of Comprehensive Security, was also the first to link explicitly Japan's economic aid to its security policy, by stating in 1981 that in future Japanese aid would be provided to those regions which were, 'important to the maintenance of peace and stability in the world.'⁶³ Successive Japanese governments followed these guidelines by directing economic aid during the Cold War to those countries considered vital by the US to Japan and the West's security, such as Pakistan, Turkey and Somalia.⁶⁴ Under Prime Minister Takeshita Noboru's 1988 International Cooperation Initiative, the size of Japanese ODA was increased and tied more closely to Japan's security interests.⁶⁵ By 1989 Japan had achieved the status of being the largest contributor of ODA in the world, and the awareness of its policy-makers was that Japan had now

⁶¹Advisory Group on Defense Issues, *The Modality of the Security and Defense Capability of Japan*, p. 7.

⁶²For views of a prominent journalist and how the concept of comprehensive security has taken hold on the conceptualisation of security in Japan, see Kishida Junnosuke, 'Sôgô Anzen Hoshô', in Kishida Junnosuke (ed.), *Nihon no Anzen Hoshô*, Tôkyô, Asahi Karuchâ Sentâ, 1982, pp. 6-45. A broad overview of the concept of Comprehensive Security and the attitudes of a wide range of government officials, scholars, journalists, and foreign commentators is contained in: Robert W. Barnett, *Beyond War: Japan's Concept of Comprehensive National Security*, New York, Pergamon-Brassey's International Defense Publishers, 1984.

⁶³Akaha Tsuneo, 'Japan's Comprehensive Security', p. 333.

⁶⁴Inada Jûji, 'Japan's aid diplomacy: economic, political or strategic?', in Kathleen Newland (ed.), *The International Relations of Japan*, London, Macmillan, 1990, p. 103.

⁶⁵Akaha Tsuneo, 'Japan's security policy after US hegemony', in Kathleen Newland, *The International Relations of Japan*, p. 155.

acquired a powerful economic instrument of security policy. This was confirmed by the new ODA Charter, or *ODA Taikô*, laid down by the Kaifu government in 1992, and which among other things stated that Japanese policy in future would consider prior to disbursement of aid the trends in military spending and development of weapons of mass destruction by the recipient country.⁶⁶

Post-Cold War economic security policy

Post-Cold War and post-Gulf War, policy-makers have continued to view economics as one of the key components of security policy. Even Ozawa Ichirô, at present the most vocal advocate of an enhanced military role for Japan, acknowledges the importance of economic power. Ozawa sees economic power functioning in the service of Japanese security in two ways.⁶⁷ Firstly, a contribution is made to Japan's and the international community's security by Japan's full participation in the global economy and efforts it makes to stabilise it. Thus, Japan's participation in economic summits and the coordination of its economic policies with the other major international economic powers is seen to contribute to the creation of a stable security environment. Secondly, economic power is viewed as giving Japan policy instruments with which to deal with specific security problems that may arise in the post-Cold War world. These instruments of economic power are considered to be ODA, Foreign Direct Investment (FDI), capital, energy supplies, technology, education, and trade. Yamazaki Taku and Katô Kôichi, senior LDP members, whose role in the making of security policy towards North Korea will be examined later, have in the past both pointed to growing importance of the financial power of Japan as a form of

⁶⁶Danny Unger, 'Japan's capital exports: moulding East Asia', in Danny Unger and Paul Blackburn, (eds.) *Japan's Emerging Global Role*, p. 158; Tanaka Akihiko, 'Japan's security policy in the 1990's', in Funabashi Yôichi (ed.), *Japan's International Agenda*, New York, New York University Press, 1994, p. 49.

⁶⁷Ozawa Ichirô, *Nihon Kaizô Keikaku*, pp. 153-155, 164.

security in the post-Cold War world as compared to the declining importance of military power.⁶⁸

The SDP leader Murayama Tomiichi's assumption of the premiership in 1994 also showed that the contest between military and economic conceptions of power and security is still ongoing. Even though the socialist party had acknowledged the constitutionality of the SDF the previous year, Murayama continued to argue in his January 1995 Diet speech for a vision of security unreliant upon military power:

The path to peace that Japan should follow is not one for its achievement based upon the exercise of armed force. Instead the painful experience of the past has taught us that the way to achieve peace and prosperity for the world is through technical knowledge and economic cooperation.⁶⁹

Other politicians such as Takemura Masayoshi of the Sakigake (Harbinger Party) and Finance Minister from 1994 to 1995 have also sought to keep attention in Japan focused on alternative forms of security policy. Whilst accepting that the Gulf War demonstrated the need for Japan to increase its contribution to international security, Takemura has argued that Japan should reject the military option, preserve the peace constitution, and look to use its economic and technical power to promote stability. In particular, he has argued for increased assistance by Japan to developing countries, and a form of 'Green PKO', where Japan plays a major role in restoring the global natural environment.⁷⁰

THE FUTURE OF JAPANESE SECURITY POLICY

The debate on the future direction of security policy in Japan, then, seems to be as heavily divided and contested as it is in the US and other countries. It is clear that the end of the Cold War followed by the shock of the Gulf Crisis have caused policy-makers in Japan from all areas of the political spectrum to reconsider the

⁶⁸Katô Kôichi, Oyama Shigeki, and Yamazaki Taku, 'Ima koso Pakkusu Japponika no kakuritsu o: buryoku to kaku de naku, kokusai kinyû ga kimete iku jidai da,' *Ekonomisuto*, 19 February 1991, p. 50.

⁶⁹Gaimushôhen, *Gaikô Seisho 1996*, Tôkyô, Ôkurashô Insatsukyoku, 1996, p. 150 [Author's translation].

⁷⁰Takemura Masayoshi, *Chîsakutomo Kirari to Hikaru Kuni Nihon*, Tôkyô, Kôbun Shobô, 1994, pp. 174-200.

basic tenets of Japanese security policy since the end of World War II. There has emerged on one side of the debate conceptions of security that stress the utility of military power as the way forward for Japan to contribute to international security after the Cold War. This conception ranges from the more radical approach, as proposed by the likes of Ozawa Ichirō and sections of the NFP, through to the more incremental approach of the LDP. Either way, though, the emergence of two conservative parties in Japan can be taken as an indication of a strong movement in policy-making which is looking to expand, although at differing paces, Japan's independent military capabilities, its support for the UN, and most especially support for the US alliance.

On the other side of the debate is the alternative tradition which emphasises the rejection of military power in favour of conceptions of security founded in economic power, and which owes much to the history of constitutional pacifism. In the past, in practice the split between the military and economic conceptions of security has not been so great, and often hard to identify as policy-makers have often used language to obscure deliberately their true position. But as already seen, many policy-makers in Japan have attempted to articulate forms of security policy which combine both military and economic approaches--the best known of which has been Comprehensive National Security. Indeed, certain commentators now feel that after the Gulf War Japan is closer to being able to realise this policy than at any other time.⁷¹

But it also arguable that despite the opportunities after the Cold War to blend these approaches, in fact the trends in domestic politics and policy-making identified so far demonstrate that the approach to security policy based on military power is increasingly exerting its dominance over those based on economic power. The ascendancy of the conservative parties following the Gulf Crisis has meant that those who argue for a security policy based primarily on

⁷¹Peter Katzenstein and Okawara Nobuo, 'Japanese security issues', p. 54; David Arase, 'Japan in East Asia', in Akaha Tsuneo and Frank Langdon (eds.), *Japan in the Post-Hegemonic World*, p. 127; Yamamoto Yoshinobu and Eiō Shinkichi, *Sōgō Anpo*, p. 67.

economic power, or at least one which balances the elements of economic and military power, are really only engaged in a rearguard action to slow the onset of the remilitarisation of Japanese security policy.

However, the irony of this situation is that the example of the US already outlined above, and the long-term trends in security thinking since the 1970's, have demonstrated that in an interdependent world the utility of military power and its contribution to international security, especially with the rise of new post-Cold War problems, is actually declining. This irony is made even greater by the fact that Japanese policy-makers have been aware of this throughout the post-Cold War period, and that as Japan moves slowly to a *de facto* abandonment of notions of comprehensive security policy, other countries, including the US, are moving to create their own concepts of comprehensive security, which emphasise the key role of economic power and which in many cases may have been inspired by the example of Japan in the first place.

In turn, the above observation begs the questions that, if Japan is moving away from its traditions of security based on economic power, why is this so and is it necessary? Given Japan's traditions of constitutional pacifism, its alternative conceptions of security, and its undoubted possession of great economic power, it can be supposed that in the post-Cold War, with a reduction in military tensions and the rise of a number of security problems that require new and flexible approaches, Japanese policy-makers could at last put their long-held conceptions into action and articulate an effective form of security policy based on economic rather than military power.

This then brings the discussion back to those fundamental questions about the future of Japanese security raised in the introduction. As has been seen, the aim of this dissertation is to examine whether it is possible to conceptualise a security policy based on economic power, what are the policy-making obstacles to it, and what this reveals about the nature of power and security after the Cold War. The above examination of the policy-making debate in Japan argues that these

conceptions do exist and that economic power as an alternative form of security policy to be pursued by Japan is worthy of investigation. The following chapters on the theory of economic security, policy-making in Japan, and the case study of Japan-North Korea security will test these conceptions in more detail.

But prior to that, the remainder of this chapter will be devoted to an exposition of Western and Japanese political theory on power and security. As described in the introduction, this dissertation aims to search through contemporary scholarship and to find a model that can be used to expand our understanding of economic power and security after the Cold War, and which can then be tested against a specific security problem. The following brief discussion of political theory will show how theoretical orthodoxy has become hard to maintain after the Cold War, how much of theory points implicitly to the importance of economic power, and how this makes it possible to introduce the concept of a state, such as Japan, that can use economic power for security ends. This model has already been alluded to in the introduction, and is known as global civilian power.

POLITICAL THEORY AND ECONOMIC POWER

Realism, liberalism, Marxism

An initial overview of the scholarship on international politics and international relations suggests that its main theories and their assumptions about power and the creation of stability are incompatible. Textbooks conventionally lay out three separate political theories--realism, liberalism, Marxism--which are said to be mutually exclusive of each other. These theories are divided traditionally over the issues of who or what is the chief actor in international politics, and the principal form of power which governs the international system. However, the following brief review of these three schools of thought will demonstrate that there is a measure of unity between them in their shared emphasis on economic power.

According to the realist view, both historical/classical and neo-realist, the sovereign state is the main actor, and in the anarchic international system military power is the ultimate arbiter of politics and hierarchy between states.⁷² International security is thus thought to be achieved by a balance of military power between states, or by the overwhelming military might of one hegemonic state.⁷³ Consequently, for realist thinkers economic power takes second place to military power as a determinant of order among states and the stability of the international political system. Nevertheless, both classical realists and neo-realists regard economic power as one of the essential foundations of a state's power due to the intimate connection between a state's war potential and its economic prosperity.⁷⁴ Realist thinkers have also acknowledged the utility of economic power as a tool in its own right for exerting power over other states, in the form of sanctions or the control of foreign markets.⁷⁵ Moreover, Robert Gilpin's version of neo-realist thought produced in the early to mid-1980's is significant because it indicated that states, in what seemed at the time to be an increasingly multi-polar world, were competing to augment their power not by increasing their military resources, but by economic nationalism, the undermining of the liberal economic order, and the pursuit of markets and economic growth.⁷⁶ Hence for Gilpin, the relationship between economics and politics, or political economy, is now becoming the future determinant of international relations. By taking this view, it can be seen that Gilpin, although starting from some very different assumptions,

⁷²For examples of classic realist thought which emphasises military power as the determinant of hierarchy and stability in the international system, see A. J. P. Taylor, *The Struggle for Mastery in Europe*, Oxford, Oxford University Press, 1971, p. xxiv; E. H. Carr, *The Twenty Years Crisis 1919-1939: An Introduction to the Study of International Relations*, London, Macmillan, 1951, p. 109.

⁷³Hans J. Morgenthau: *Politics Among Nations: The Struggle for Power and Peace*, New York, Alfred A. Knopf, 1966 (fourth edition), p. 37; Kenneth N. Waltz, *A Theory of International Politics*, London, Addison Wesley, 1979, p. 118; Kenneth N. Waltz, *The Spread of Nuclear Weapons: More May Be Better*, Adelphi Papers no. 171, The International Institute for Strategic Studies, 1981, p. 7.

⁷⁴E. H. Carr, *The Twenty Years Crisis 1919-1939*, p. 113; Kenneth N. Waltz, *A Theory of International Politics*, p. 131.

⁷⁵E. H. Carr, *The Twenty Years Crisis 1919-1939*, pp. 119-27; Robert Gilpin, 'The richness of the tradition of political realism', *International Organization*, vol. 38, no. 2, Spring 1984, pp. 293-95.

⁷⁶Robert Gilpin, *The Political Economy of International Relations*, Princeton, New Jersey: Princeton University Press, 1987, p. 88.

has now edged the realist debate on power and stability closer towards that of the liberal thinkers.

In contrast to realism, liberalism has long emphasised the importance of economic power as a determinant of stability in the international system.⁷⁷ Since the time of Immanuel Kant, liberal thinkers have ranked economic interdependency alongside the growth of democracy and international institutions as one of the key elements in achieving peace and order amongst individuals and states.⁷⁸ In the contemporary era, the link between economic interdependence and stability has been reformulated by Robert Keohane and Joseph Nye Jr. in the 1970's with *Power and Interdependence*, and after the Cold War by Bruce Russett with *Grasping the Democratic Peace*.⁷⁹ In addition, political economy, long a key principle of liberal economic theorists since the time of Adam Smith, has also been rearticulated by liberal political scientists such as Susan Strange, and, as will be seen later in this chapter, been used in much the same way as Gilpin's theories to explain political and hegemonic change after the Cold War.⁸⁰

Economic power is clearly central to the Marxist view of international politics, dominated as it is by theories of conflict among economic classes and the competition among states for capital accumulation. The World System theory, as propounded by Immanuel Wallerstein, is one example of a derivative of Marxist thought which attempts to show how order, although not necessarily stability, is given to the international system by the economic relations between the developed 'core' of capitalist countries and the 'periphery' of developing

⁷⁷Stephen Gill and David Law, *The Global Political Economy: Perspectives, Problems and Policies*, Hemel Hempstead, Harvester Wheatsheaf, 1988, p. 26.

⁷⁸Immanuel Kant, *Perpetual Peace: A Philosophical Essay*, translated by M. Campbell Smith, London, Allen and Unwin, 1917 (third edition), p. 157. The classic English liberal statement on the importance of economic interdependency for peace can be found in: Norman Angell, *The Great Illusion: A Study of the Relation of Military Power in Nations to their Economic and Social Advantage*, New York and London, Garland, 1972.

⁷⁹Robert O. Keohane and Joseph S. Nye Jr., *Power and Interdependence: World Politics in Transition*, Boston, Little Brown, 1977; Bruce Russett, *Grasping the Democratic Peace: Principles for a Post-Cold War World*, Princeton, New Jersey: Princeton University Press, 1993.

⁸⁰Susan Strange, *States and Markets*, London, Pinter Publishers, 1994 (second edition).

countries.⁸¹ Likewise, a second derivative of Marxist thought, Gramscian theory, although designed as a corrective to the historical determinism of classical Marxism, also shares the same basic emphasis on economic power as shaping the international system. As put forward by its most enthusiastic advocates Robert Cox, Stephen Gill, and David Law, Gramscian theory does increase the sophistication of our understanding of international politics by showing that hegemony is based not simply on coercion, but also that the ideology created by dominant transnational classes gives a consensual aspect to hegemony.⁸² The value of the argument that ideas can often have a force in international relations equivalent to material resources should not be underestimated, and is explored further in chapters two and three. But it is also clear that Gramscian theory cannot avoid concentration upon economic power as the chief force in the international system. For in any derivative of Marxist thought the view of production as the basis of social and political power also means that it is the generator of the ideology of the dominant international economic class.⁸³

This brief account of the three traditions of international politics theory has shown there is common ground between them in the implicit--if not always explicit--attention that they devote to economic power as a key determinant of the international order. Arguably, this tendency to focus on the role of economic power has become even greater in the post-Cold War period and can be seen in the debate on hegemony. By examining this debate in brief, it should then be possible to reveal how theories have come to concentrate on economic power and the areas of convergence between them. The aim is not to engage directly in the

⁸¹Immanuel Wallerstein, *The Politics of the World Economy*, Cambridge, Cambridge University Press, 1987; John Agnew and Stuart Corbridge, *Mastering Space: Hegemony, Territory and International Political Economy*, London, Routledge, 1995, p. 104.

⁸²Robert W. Cox, *Production Power and World Order: Social Forces in the Making of History*, New York, Columbia University Press, 1987, p. 253; Stephen Gill and David Law, *The Global Political Economy*, p. 65; Stephen Gill, *American Hegemony and the Trilateral Commission*, New York, Cambridge University Press, 1990, p. 33; Stephen Gill and David Law, *The Global Political Economy*, p. 63.

⁸³Robert W. Cox, *Production Power and World Order*, p. 253; Susan Strange, *States and Markets*, p. 26.

debate on hegemony, but to use the debate to illustrate how the view of power and of the key states in the international system has changed, how it is possible to combine theoretical approaches, and how this has fed through into the concept of the global civilian power.

The debate on hegemonic decline and power

The debate in Western scholarship over whether the US can maintain its position as the provider of global public goods, or whether it faces challenges from other competitor states for that role, first came to prominence in the mid 1980's with Robert Keohane's *After Hegemony*.⁸⁴ The debate has involved scholars from all the theoretical traditions outlined above, and has shown itself as capable of cutting across ideological boundaries. Scholars often regarded as sharing the same theoretical outlook have found themselves on different sides of the debate, and thus the debate on hegemony is a good illustration of how in recent years views have begun to change on power and what sort of states can become dominant in the international system in the future. In particular, it is clear that, whether in support or against arguments of US hegemonic decline, all theories point to economic power as the crucial determinant of stability in the international system.

Hence, the most popularised version of 'declinist' theory, as contained in Paul Kennedy's 1988 bestseller *The Rise and Fall of the Great Powers*, attributes the end of US hegemony to the fundamental inability of the US to maintain the economic strength to match its foreign military commitments.⁸⁵ Robert Gilpin puts forward another version of this type of 'imperial overstretch' theory. In the same way as Kennedy, he sees hegemony as having an inherent tendency to undermine itself as it is unable to keep up with the incessant rise in costs involved in providing the public goods of a liberal economic system, and falls victim to the

⁸⁴Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton, New Jersey: Princeton University Press, 1984.

⁸⁵Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict From 1500 to 2000*, New York, Random House, 1988.

rise of economic competitors, or 'free riders'.⁸⁶ Adopting Charles Kindleberger's theory of hegemonic stability, Gilpin also argues that the loss of the control of the key economic component of finance has caused in succession the decline of the hegemony of Great Britain and then the US.⁸⁷ Meanwhile, Robert Cox chooses to explain US hegemonic decline by focusing on the loss of its position as a consensual leader in the international system. However, as has been seen in the previous review of Gramscian literature, Cox's views on the power of ideas are derived from the belief that the dominant ideology is generated by the dominant economic state. Thus, ultimately he ascribes the loss of the US's consensual hegemony, or the period of 'non-hegemony', to the loss of its economic leadership in the global economy since the 1960's.⁸⁸

Directly opposed to these 'declinist' arguments is a 'revivalist' school of thought, which contends that the accounts of US decline have been exaggerated, and that US hegemony, whilst it may be experiencing difficulties, is still sound, will continue for the foreseeable future, and may become even stronger. The 'revivalist' school includes a number of leading scholars from different ideological camps, such as the realist Samuel Huntington; the liberal scholars Joseph Nye Jr., Susan Strange, and Bruce Russett; and those who have often pushed the Gramscian line, Stephen Gill and David Law.

These scholars tend to take two lines of argument in defence of US hegemony, both of which use economic criteria to show that US hegemony is intact. The first is to take direct issue with and to deny the validity of the arguments put forward by the 'declinists' in regard to the US's weakness in certain power resources. For example, Nye and Huntington refuse to accept that the US may have fallen behind any other power in terms of the 'hard' power, both military and economic, that it

⁸⁶Robert Gilpin, *War and Change in World Politics*, Cambridge, Cambridge University Press, 1981, p. 162.

⁸⁷Robert Gilpin, *The Political Economy of International Relations*, p. 147.

⁸⁸Robert W. Cox, *Production Power and World Order*, p. 273.

commands.⁸⁹ The second and more persuasive line of defence used by the 'revivalists' is to claim that the 'declinists' have failed to see that the true nature of US hegemonic power is changing and that it can no longer be measured purely in terms of direct control over tangible power resources. The 'revivalists' argue that power has now become 'multi-dimensional' and consists of a range of 'soft', structural, and intangible components. The result of this is that the most important indicators of hegemonic power are now not only the ability to accumulate certain types of power resources, but also whether or not the international system is designed and works in accordance with the interests of the hegemon, or, as Russett argues, whether or not a state has control over 'outcomes'.⁹⁰ Judged by these criteria, then, the 'revivalists' claim that the US's hegemonic power has not only been maintained, but may have even increased.

Nye argues that the US has actually boosted its hegemony by the growth of its 'soft' power expressed through the universality of its culture.⁹¹ Strange concurs with Nye by putting forward the idea that the US has maintained its influence through the acquisition of structural economic power which is derived from the sheer weight of the US economy in the international system. In direct contrast to the arguments of Gilpin, she claims that the US's structural power has allowed it effectively to retain control of production and finance, and that its ability to run a deficit over the long term is proof of the US's financial strength and the centrality of its position within the international financial system.⁹²

Gill and Law seem to take a different line from their mentor Cox with regard to their Gramscian approach to the question of US decline, and support the 'revivalist' school of thought. They note that the US has declined in many aspects of economic power, but follow Strange's arguments in positing that the US still

⁸⁹Joseph S. Nye Jr., 'Soft Power', *Foreign Policy*, no. 80, Fall 1990, p. 155; Samuel P. Huntington, 'The US—decline or renewal?' *Foreign Affairs*, vol. 67, no. 2, Winter 1988-89, p. 82.

⁹⁰Bruce Russett, 'The mysterious case of vanishing hegemony or is Mark Twain really dead?', *International Organization*, vol. 39, no. 2, Spring 1985, p. 228.

⁹¹Joseph S. Nye Jr., *Bound to Lead*, p. 191.

⁹²Susan Strange, 'The persistent myth of lost hegemony', *International Organization*, vol. 41, no. 4, Autumn 1987, p. 565.

retains a powerful economic and hegemonic position due to its position at the centre of the global economy.⁹³ Moreover, they agree with Nye in seeing US power as having been extended and diversified through the establishment of a dominant universal culture.

The above review has demonstrated that, despite the apparent divisions in the debate on hegemony, there are broad areas of unity which provide the basic parameters for the framework and issues of the debate, and which underlie many of its basic conclusions. As has already been described, realist, liberal, and Marxist analyses all point to the importance of economic power and integrate it into their most basic theoretical assumptions about the nature of international politics. The debate on hegemony further illustrates this point due the fact that all the participants in the debate agree that the key to understanding power and hegemony is to be found in the study of economic factors. Thus, the 'declinists' in their attempts to prove the failure of US hegemony focus mainly on the economic aspects of US decline. The theories of 'imperial overstretch' and loss of consensual leadership are designed to show that the origin of the US's impending or already actualised hegemonic decline can be traced back to issues of fundamental economic weakness.

In turn, the 'revivalists' base their defence of US hegemony on economic arguments. Those who refuse to acknowledge US decline point to its continued superiority with regard to certain economic indicators, and in doing so accept the 'declinist' proposition that hegemony and power can be gauged by economic indicators such as shares of world trade and levels of GNP. Furthermore, 'revivalists' may claim that the nature of power has shifted to being 'soft' and structural, but it is also clear that these types of power are still products of economic influence and cannot be separated from them. Structural power is initially acquired through the size and weight of a country's economy, and 'soft'

⁹³Stephen Gill and David Law, *The Global Political Economy*, p. 357.

power, such as a universal culture, is produced in the first instance by a production structure capable of penetrating international markets with consumer goods that have a strong commercial as well as cultural appeal to consumers.

Up until this point, then, the review of Western literature on international politics has shown that all schools of thought are increasingly united in seeing economics as the crucial form of power in the international system and in dictating the degree of its stability. The next section on theory will go on to show how as a result of this emphasis on economic power, Japan has now been indicated as a possible hegemon, and how this has then created the type of intellectual environment where it is possible to think of Japan as a global civilian power.

JAPAN AS A NEW TYPE OF GREAT POWER

The debate on hegemony and the focus on the importance of economic power in moulding the post-Cold War international political system, reveals another area of unity in contemporary scholarship with regard to the rise of new hegemonies and new types of great powers capable of challenging the dominant hegemon. Acceptance amongst scholars that hegemony is based on economic power means that new hegemonies are seen inevitably as being those states which have accumulated economic power. These potential new hegemonies are typically identified in the modern era as Japan, Germany, and possibly new trading blocs such as the EU.⁹⁴

With respect to Japan, opinion is still divided over whether, based on its economic power, it has reached the status of a fully fledged hegemon. Ezra Vogel and William Nester claim that Japan has, or is very near to acquiring, hegemonic status. But Robert Gilpin, Barry Gills, Hans W. Maull, Joseph Nye Jr., Robert Cox, Deborah L. Haber, and John Agnew and Stuart Corbridge are more hesitant, doubting whether Japan has managed to yet gather sufficient economic power,

⁹⁴John Agnew and Stuart Corbridge, *Mastering Space*, p. 106; Joseph S. Nye Jr., *Bound to Lead*, pp. 142-54.

ideological leadership, and political will to make the transformation to hegemonic status.⁹⁵ But even allowing for this split in opinion, the most significant point is that the scholarship has reached an agreement that at the very least Japan's possession of economic power gives it the potential to become a hegemonic state.

For the purposes of this dissertation, Japan's assumption of a position as a hegemon is not a key question, and in recent years, as Japan's economic miracle is seen to have slowed and the US economy to have recovered, it has become a less popular subject for debate. However, what is significant for the argument of this chapter, is that the debate on hegemony illustrates that much of the scholarship on international relations has reached the point where it can countenance serious discussion on Japan's role as a hegemon, or at least as a great power, due to its possession of economic power.

The consideration of Japan as a hegemon and the provider of public goods and stability to the world based on its economic power is instructive in a number of ways. Firstly, it confirms the growing conception outlined earlier that economics is now the major form of power in international politics, and in certain situations can supersede military power in importance. Thus, the commentator William Pfaff argues that there has been a 'redefinition of power' in the post-Cold War world, marked by a fundamental shift away from traditional forms of power to ones based more upon economics and technology.⁹⁶ Reflecting the debate on hegemony and economic power, a new consensus seems to be emerging amongst scholars that the nature of power has indeed shifted. Akaha Tsuneo and Frank Langdon argue that in the post-hegemonic world: 'Perhaps the most important question....is whether or not it has move into a period when economic power is

⁹⁵John Agnew and Stuart Corbridge, *Mastering Space*, p. 149; Robert W. Cox, 'Middlepowermanship, Japan, and the future world order', *International Journal*, no. 44, Autumn 1989, p. 843; Barry Gills, 'The hegemonic transition in East Asia: a historical perspective,' in Stephen Gill (ed.), *Gramsci, Historical Materialism and International Relations*, Cambridge, Cambridge University Press, 1993, p. 211; Robert Gilpin, *War and Political Change*, p. 239; Joseph S. Nye Jr., *Bound to Lead*, p. 166, Hans W. Maull, 'Germany and Japan: the new civilian powers,' *Foreign Affairs*, vol. 69, no. 5, Winter 1990-91, p. 91; Ezra Vogel, 'Pax Nipponica?', *Foreign Affairs*, vol. 64, no. 4, Spring 1986, p. 767; William R. Nester, *American Power*, p. 125.

⁹⁶William Pfaff, 'Redefining world power', p. 36; Deborah L. Haber, '"The death of hegemony" Why Pax Nipponica is impossible', *Asian Survey*, vol. 30, no. 9, September 1990, pp. 892-907.

more important than military power.⁹⁷ Susan Strange supports this view by stating that economic power, and especially economic structural power, is now more important than political power.⁹⁸ William Nester contends that, 'global economic power means global political power,' and Robert Gilpin comments that the pursuit of economic rather than military power has now become the chief activity for a state's foreign and security policy.⁹⁹

Secondly, the association of Japan with hegemonic status due to its apparent mastery of various components of economic power argues that these components, such as capital, finance, investment, trade and energy, can now be seen as manifestations and tools of a state's power. Since the 1970's scholars have argued that economic power on its own can be used for the security interests of states. As Klaus Knorr stresses: 'The ability to shut off valuable markets, to preempt sources of supply, to stop investments and to reduce economic aid, would constitute national strength equivalent to military power.'¹⁰⁰ Recent scholarship has begun once more to concentrate on the potential of economic power to directly shape the activities and politics of a state. In particular, studies have dealt with the role of the economic component of capital, and the work of Cox, and Gill and Law has emphasised how state policy can be controlled by international capital, with capital even acquiring hegemonic status in its own right.¹⁰¹

Thirdly, the importance attached to Japan's possession of economic power in the debate on hegemony, and the possibilities of the use of this for security purposes, reveals the final objective of this investigation of contemporary debate on political theory--a conceptual model of Japan as a new type of great power employing economic power to achieve its security ends, rather than resorting to military power.

⁹⁷Akaha Tsuneo and Frank Langdon, 'The post hegemonic world and Japan', p. 265.

⁹⁸Susan Strange, 'The persistent myth of lost American hegemony', p. 553.

⁹⁹William R. Nester, *American Power*, p. 125; Robert Gilpin, 'The debate about the new world economic order', in Danny Unger and Paul Blackburn, *Japan's Emerging Global Role*, p. 25.

¹⁰⁰Klaus Knorr, *Power and Wealth: The Political Economy of International Power*, London, Macmillan, 1973, p. 20.

¹⁰¹Stephen Gill and David Law, *The Global Political Economy*, p. 205.

Japan as a Global Civilian Power

As noted above, scholars have long been aware that states can achieve their objectives by means other than by military power, and most usually this means by the manipulation of economic power. One of the first Western scholars to articulate this idea in a coherent model and to link it to the case of Japan was Richard Rosecrance. In *The Rise of the Trading State*, Rosecrance postulated that states according to their power resources historically have followed different paths to enrichment: that of the military-political world and that of the trading world. The military-political world has typically involved the use of force by a state to increase its material resources and territory. In contrast, the trading state has concentrated on economic exchange to survive with only a minimal importance attached to territorial expansion. In the post-War period, with the growth of interdependence and the declining utility of modern weapons, Rosecrance has seen a transformation of many nations to become trading states, and that they have successfully achieved their national aims. In particular, he identifies Germany and Japan as two examples of trading states that can achieve their interests without the use of military power.¹⁰² Russia, the United States, and some Third World countries, however, are classified by Rosecrance as recalcitrant nations because of their refusal to downgrade their emphasis on the military path to power and security.

Rosecrance pointed, therefore, to the possibility of Japan playing a full role in international politics and achieving its security ends by the use of economic means and without following the path of other states traditionally regarded as great powers. The ability of Japan to express its power in a different way from others and to function as a different kind of model of a great power has since been reexamined by other scholars. David Williams has argued that Japan is a society which is capable of demonstrating a new model of a great power to the rest of the

¹⁰²Richard Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World*, New York, Basic Books, 1986, p. xi.

world. He notes that when looking at the unusual characteristics of Japanese foreign policy:

The suggestion would be that economics as a discipline and a way of looking at the world has become the new focus of concern in foreign policy analysis, and thus has ended the old, and all too exclusive, stress on diplomacy, military tactics and geo-politics. Post-war Japan, particularly in its effective and total substitution of economic competition for military expansion, exemplifies in an unrivalled way the forces that would sweep away the Cold War world order. As no other polity, Japan has forced the world to rewrite the diplomacy of guidebooks and manuals of strategic thinking that formed the intellectual underpinnings of the post-war global order.¹⁰³

Reinhard Drifte has also taken up the theme of Japan's role as a new type of power in the post-Cold War world and argues that to understand its influence it is necessary to think of new models and paradigms. For Drifte, the influence of Japan is not seen so much in the power indicators of other states such as military power, but more in its economic and 'soft' power resources. He argues that Japan conducts a different type of foreign policy that serves its national interests without necessarily adopting the same leadership style as other developed powers. Japan's influence is made felt simply by the fact that its weight in the global economy means its can do nothing and still affect an outcome which is beneficial to its national interests. Drifte refers to this as 'leadership by stealth'.¹⁰⁴

Hans Maull, though, is the Western researcher who has articulated most clearly in Western scholarship a model of Japan as a different kind of global power which can achieve its foreign and security policy ends by the use of economic power. Maull argues for a new type of power which is characterised by active cooperation with other powers to achieve international objectives, and 'the concentration on non-military, primarily economic, means to secure national goals, with military power left as a residual instrument serving essentially to safeguard other means of international interaction.'¹⁰⁵ Maull does not reject the

¹⁰³David Williams, *Japan: Beyond the End of History*, London, Routledge, 1994, p. 9.

¹⁰⁴Reinhard Drifte, *Japan's Foreign Policy in the 1990's: From Economic Superpower to What Power?*, London, Macmillan, 1996, p. 167.

¹⁰⁵Hans W. Maull, 'Germany and Japan', p. 92.

use of military power altogether, and sees the need sometimes to use this in the last resort to 'civilise' relations between nations. But he sees the civilian power as able to exercise force only with a clear international mandate, and approaching the use of military power with a healthy diffidence. Above all, the global civilian power looks actively to make a contribution to international security by the use of economic power. In turn, Maull argues that it is Japan with its unique pacifist constitution and high level of economic resources which is most suited to perform the role of this global civilian power.¹⁰⁶

Hence, the examination of the debate on hegemony in Western scholarship and the importance it attaches to economic power in shaping the post-Cold War system, has now brought forward the concept of global civilian power. This is one possible theoretical model with which to test the continued utility of the traditions of economic security policy in Japan against the newer military-based conceptions in the post-Cold War world. But before examining the validity of the model it is first necessary to see if it also accepted in Japanese scholarship and its applicability to the Japanese case.

JAPANESE SCHOLARSHIP ON POWER AND HEGEMONY

The large number of universities in Japan, all with their own independent traditions of scholarship, makes it hard to generalise about the overall state of the debate on international politics, power, and security.¹⁰⁷ However, much as in the West, there have been two vigorous and conflicting traditions of realism and liberalism. This debate, although often given a distinct Japanese feel due to the historical and political circumstances of the country, has been closely related to the course of overseas events and the trends in contemporary Western scholarship. The similarities between the debate on power in Japan and the West

¹⁰⁶Hans W. Maull, 'Germany and Japan', p. 105.

¹⁰⁷On this point, see Mika Mervio, *Cultural Representations of the Japanese in International Relations and Politics*, Tampere, Acta Universitatis Tamperensis, 1995, pp. 152-54.

are also likely to become greater as the number of those Japanese scholars who have obtained higher degrees abroad increases.

Realism and liberalism

The Japanese realist perspective on international politics during the Cold War is perhaps best represented by the works of Nagai Yōnosuke, Inoki Masamichi, and Kōsaka Masataka. These realist thinkers largely accepted the inevitability of the bipolar balance of power during the Cold War, and the need for military power as the ultimate protection from communist aggression. In the 1960's, Kōsaka and other realists were especially critical of the pacifist and neutralist principles of many of their liberalist counterparts, and argued that Japan should maintain the US-Japan alliance and a measure of its own military strength.¹⁰⁸ But at the same time as the realist logic of these theorists accepted the role of military power as the final determinant of international politics during the Cold War, they also argued that it was not desirable for Japan to pursue exclusively the path of military power towards peace. For instance, Inoki, whilst criticising the 'hollowness' of Japanese pacifist thought and the refusal of the Japanese to discuss the 'taboo' of defence, also warned against Japan's pursuit of the status of a great military power. This refusal to advocate Japanese military efforts commensurate with its economic power was based in part on the knowledge that it was politically unacceptable to neighbouring Asian countries and that Japan did not possess the resources to compete with the other major powers. But also it reflected the belief, already seen in the description of the report on Comprehensive Security (of which Inoki was a part), that economic power in itself was beneficial to Japan's security.¹⁰⁹

Diametrically opposed to the realist school during the Cold War was the liberal strain of political science in Japan, much of which stressed concepts of

¹⁰⁸For an example of Kōsaka's thinking during the Cold War on realism and the importance of power struggles and military power, see Kōsaka Masataka, *Kokusai Seiji: Kyōfu to Kibō*, Tōkyō, Chūō Kōronsha, 1966, pp. 4-20.

¹⁰⁹Inoki Masamichi, *Gunji Taikoku e no Gensō*, Tōkyō, Tōyō Keizai Shinshōsha, 1981, pp. 3-29.

pacifism and looked for alternative methods of security that avoided military power and the US-Japan alliance. For the political philosopher Maruyama Masao, the conclusion of the US-Japan alliance and the partial peace with the other World War II combatants that it entailed, and the alliance's renewal in the face of popular protests, was seen as the very antithesis of his democratic principles which stressed the need for social autonomy. Furthermore, Maruyama denied the logic of the inevitability of conflict; in his view peace was a product of the mode of thought, and seen in these terms the 'realism' of the Cold War had to be questioned.¹¹⁰ Maruyama's influence was passed on to other pacifist thinkers via the *Heiwa Mondai Danwakai* (Peace Problems Discussion Group), and the international relations specialist Sakamoto Yoshikazu has refused consistently to accept the theory of realism, arguing that its judgements about the unaltered course of human nature and conflict are simply ahistorical.¹¹¹ During the Cold War, Sakamoto advocated a policy of the dissolution of the US-Japan security alliance--the nuclear strategy of which he saw as actually threatening rather than protecting Japan--and instead that Japan should ensure its security by a policy of neutralism and reliance on a UN force.¹¹² Sakamoto was under no misapprehension that at the height of the Cold War Japan was in great military peril, but believed that neutralism was a far more realistic policy prescription than involvement in US military strategy and support for the perpetuation of the US-Soviet confrontation. In this way, Sakamoto and other scholars of international relations opposed to the realist-military perspective saw the possibilities of Japan as a new type of power, able to seek an alternative form of security policy unreliant on Japan's own military power or that of allies.

¹¹⁰Rikki Kersten, *Democracy in Postwar Japan: Maruyama Masao and the Search for Autonomy*, London, Routledge, 1996, pp. 170-1, 186-90.

¹¹¹Sakamoto Yoshikazu, 'A perspective on the changing world order: a conceptual prelude,' in Sakamoto Yoshikazu (ed.), *Global Transformation: Challenges to the State System*, Tôkyô, United Nations University Press, 1994, p. 17. For a discussion of the role of the Heiwa Mondai Danwakai and its influence on the post-War debate in Japan on security, see Glenn D. Hook, *Militarization and Demilitarization*, pp. 26-41.

¹¹²Sakamoto Yoshikazu, *Kakujidai no Kokusai Seiji*, Tôkyô, Iwanami Shoten, 1967, pp. 3-27.

The Japanese debate on hegemony and power

The divisive, and often at times personally acrimonious, debate between Japanese realist and liberal thinkers during the Cold War suggests that there was very little common ground between them. However, as with the debate in the West, it can be seen that the discussion on hegemony which arose towards the end of and after the Cold War in Japan reveals areas of unity in Japanese scholarship, and in particular the shared emphasis on the importance of economic power for the future of the international political system.

As early as 1980, the report on Comprehensive Security had concluded that the US's global dominance had declined both militarily and economically.¹¹³ In 1985, Murakami Yasusuke raised the problem of hegemony and argued that its first prerequisite was economic power. According to Murakami, it was the loss of the ability by the US to provide economic public goods which spelled the end of its hegemony.¹¹⁴

As in the West, the debate on hegemony in Japan was then given momentum by the publication of the Japanese version of Kennedy's *Rise and Fall of the Great Powers*, speculation about Japan's own potential as a hegemon, and the end of the Cold War and advent of the Gulf War.¹¹⁵ The debate seems to have cut across many ideological boundaries and to have united many scholars in seeing economic power as the key to the maintenance of hegemony. The realist Inoguchi Takashi supports the view that US economic and thus US political hegemony is at an end. Kôsaka talks of the decline of 'Pax Americana' due to the neglect of economic issues by the US.¹¹⁶ Meanwhile, the liberal theorist Kamo Takehiko

¹¹³Sôgô Anzen Hoshô Gurûpu, *Sôgô Anzen Hoshô Senryaku*, p. 29.

¹¹⁴Murakami Yasusuke, 'A futâ hegemoni', *Chûô Kôron*, November 1985, pp. 68-89.

¹¹⁵Kennedy's book immediately after publication became a bestseller, and Kennedy himself was invited to numerous speaking functions. Yamamoto Yoshinobu and Etô Shinkichi, *Sôgô Anpo*, p. 398; Akaha Tsuneo, 'Japan's security after US hegemony', p. 154.

¹¹⁶Kôsaka Masataka(ed.), *Japan's Choices: New Globalism and Cultural Orientations in a Cultural State*, London, Pinter Publishers, 1989, p. 26. For Inoguchi Takashi's views on the decline of US power, see 'The ideas and structures of foreign policy: looking ahead with caution', in Inoguchi Takashi and Daniel I. Okimoto (eds.), *The Political Economy of Japan, Volume 2: The Changing International Context*, Stanford, California: Stanford University Press, 1988, pp. 23-63; *Gendai Kokusai Seiji to Nihon: Pâruhâbô Gojûnen no Nihon Gaikô*, Tôkyô, Chikuma Shobô, 1991, pp. 310-315; 'Change and response in Japan's international politics and strategy', in

has argued that in fact US hegemony has been at an end since the 1970s following its defeat in Vietnam and the economic difficulties of falling GNP and productivity, and the end of the convertibility of the US dollar.¹¹⁷ On the subject of Japan's assumption of a hegemonic position, liberal thinkers discount this possibility and the desirability of such a situation, but Taira Kôji feels that Japan's economic strength means that it can be identified as a candidate for hegemony even though it does not possess military power comparable to the US. He states that, 'Military heroism dies with the end of history, and much less glamorous economics becomes the centrepiece of post-history life. Japan appears to be well suited for a leading role in this state of affairs.'¹¹⁸

Hence, it can be seen that there is general agreement among scholars from all schools of thought that economic power is one of the essential elements of hegemony. In turn, it is also clear that it is economic power which is seen as one of the key determinants of security in the post-Cold War period. Analysts on all sides were unimpressed by the US's triumph in the Gulf War, and did not necessarily equate this use of military power with the future needs of security policy and post-Cold War security problems.¹¹⁹ Kôsaka Masataka was reluctant to be too hasty in doubting the continued influence of military power after the Gulf War, but Taira Kôji argues that the main result of the Gulf War was that it, 'successfully proved the futility of a warlike nations obsession with military power as an indispensable means of national security.'¹²⁰ Tanaka Akihiko, a scholar often thought to belong to the realist school and a leading thinker on security matters, in his analysis of the post-Cold War order has noted that military power will continue to play some part in coping with security issues in areas of

Stuart Harris and James Cotton (eds.), *The End of the Cold War in Northeast Asia*, Boulder, Colorado: Lynne Rienner, 1991, pp. 292-216.

¹¹⁷Kamo Takehiko, *Sekai Seiji o Dô Miru ka*, Tôkyô, Iwanami Shinsho, 1995, pp. 73-4.

¹¹⁸Taira Kôji, 'Japan, an imminent hegemon?', *The Annals of the American Academy of Political and Social Science, Japan's External Economic Relations: Japanese Perspectives*, vol. 513, January 1991, p. 152.

¹¹⁹Tanaka Akihiko, 'Japan's security policy', pp. 36-7, 39.

¹²⁰Kôsaka Masataka, *Kôsaka Masataka Gaikô Hyôronshû*, Tôkyô, Chûô Kôronsha, 1996, p. 312. Taira Kôji, 'Japan as number two: new thoughts on the hegemonic theory of world governance', in Akaha Tsuneo and Frank Langdon (eds.), *Japan in the Post-Hegemonic World*, p. 258.

the world which are not yet characterised by interdependence and thus that Japan should maintain the US alliance. But Tanaka also recognises that the global trend is towards interdependence and the declining utility of military power.¹²¹ The pacifist scholar Asai Motofumi argues that Bush's belief in a new world order based in military power was mistaken, and the *Asahi Shimbun* journalist/commentator Funabashi Yôichi concludes that the Gulf War actually showed that military power would not be the supreme form of power in the post-Cold War world.¹²²

The rejection of military power as the sole determinant of hegemony and security, and the subsequent concentration on economic power, shows that there is a growing implicit unity between the different schools of Japanese scholarship. The end of the Cold War has not ended the ideological battles in Japanese scholarship, but it has brought about more flexibility in thinking on the nature of international politics, or what Sakamoto has termed as the shift from the rigid 'absolutism' of the Cold War to the 'relativism' of the post-Cold War era.¹²³ The recognition of the importance of economic power and flexibility in thinking means that it has now become possible for scholars traditionally from different ideological camps to argue for the concept that Japan should make a contribution to security primarily by means of its economic power.

Hence, Yamamoto Yoshinobu and Shinkichi Etô advocate a Japanese contribution to international security based on its continued integration into the global economy through the opening of its markets, and the increased use of economic instruments, such as ODA and technology transfers.¹²⁴ The US-based Japanese scholar Akaha Tsuneo also argues for the future primacy of economic power in the newly emerging international political system. He contends that:

¹²¹Tanaka Akihiko, *Atarashii Chûsei: 21seiki no Sekai Shisutemu*, Tôkyô, Nihon Keizai Shimbunsha, 1996, pp. 167-266.

¹²²Funabashi Yôichi, 'Introduction: Japan's international agenda for the 1990's', in Funabashi Yôichi (ed.), *Japan's International Agenda*, p. 3; Asai Motofumi, 'Pacifism', p. 139.

¹²³Sakamoto Yoshikazu, 'Sôtaika no jidai: shimin no seiki o mezashite', *Sekai*, January 1997, pp. 35-67.

¹²⁴Yamamoto Yoshinobu and Etô Shinkichi, *Sôgô Anpo*, pp. 573-80.

Japan has enormous economic power with which to play a leading role, if not the leading role, in the construction of a non-hegemonic world characterised by collective, cooperative sharing of power and responsibilities....Japan must also play an international security role commensurate with its economic power, and the most promising avenue is found in active and creative application of its comprehensive security policy, with an explicit emphasis upon economic development as a means of promoting political stability.¹²⁵

Japanese views on global civilian power

These sentiments concerning economic power and security have been most fully articulated by the adoption in Japan of the global civilian power model. Surprisingly, Kôsaka Masataka (admittedly, as he says in one of his more idealistic moments) has argued for Japan to follow this model. For Kôsaka the meaning of global civilian power, or the *Bunminteki Taikoku*, is somewhat different from that of Maull's original model as he argues for the maintenance of the bilateral alliance with the US and for the participation of Japan in PKO missions. But nevertheless he does accept one of the principal ideas of the global civilian power concept which is that Japan's chief contribution to international security should be by the use of economic power.¹²⁶

Funabashi Yôichi, however, has been the most faithful proponent to the concept of global civilian power in Japan. Funabashi argues that Japan's unusual 'power portfolio' gives it the credentials to act as a new type of global civilian power, or *Chikyû Minsei Taikoku*, and states that:

The widespread perception that the Gulf War actually underscored the supremacy of military power should not alter Japan's strategy of acting as a global civilian power. Japan should still search for various reasons to enhance its political power through economic strength, not military might. Such a strategy should again stimulate the perception of the changing nature of power in the world and the recognition and acceptance of Japan as a new power.¹²⁷

Like Maull and Kôsaka, Funabashi does not rule out completely Japan's support for UN peacekeeping operations, and he also concludes that the US-Japan

¹²⁵ Akaha Tsuneo, 'Japan's security agenda in the post-cold war era', *Pacific Review*, vol. 8, no. 1, 1995, p. 47.

¹²⁶ Kôsaka Masataka, *Kôsaka Masataka Gaikô Hyôronshû*, pp. 329, 336, 348.

¹²⁷ Funabashi Yôichi, 'Japan and the new world order', *Foreign Affairs*, vol. 70, no. 5, Winter 1991-92, p. 67.

security alliance should be maintained. But unlike Kôtsuka, Funabashi sees the alliance only as a stop-gap measure to allow Japan to build a regional and UN centered security system. Funabashi feels that the post-Cold War security agenda is tailor-made for Japan's power resources. The low-intensity security problems of environmental destruction, refugee crises, environmental damage, economic dislocation and the proliferation of weapons of mass destruction are all ones which can be dealt with by a global civilian power.¹²⁸

Therefore, the concept of global civilian power--defined here as the concentration by a state upon the use of economic tools of security policy--is fixed firmly in Japanese scholarship and shows that the strict divisions of theories in thinking about power and security are breaking down. Its acceptance in both Western and Japanese scholarship argues that the concept of the global civilian power is a suitable one to use in the investigation of the future of Japanese security policy and the utility of economic power.

SUMMARY

This chapter has explored the course of the debates on security among policy-makers in the West and Japan after the Cold War. It has revealed that there is a recognition in the US that economic power is of central importance in dealing with post-Cold War security problems, but that in Japan the debate is heavily contested between those policy-makers that wish to see an incremental expansion of Japan's military contribution to international security, and those who wish to defend the traditions of security policy based on conceptions of economic power. Examination of these debates reinforces the basic questions of this dissertation as to the future direction of global security, the role of economic power within it, and in what ways Japan can contribute to a stable global security environment. In particular, the question is raised of whether Japan can articulate a security policy

¹²⁸Funabashi Yôichi, *Nihon no Taigai Kôtsû: Reisengo no Bijiyon o Kaku*, Tôkyô, Iwanami Shinsho, 1995, pp. 170-71, 197-201.

based on economic power in the post-Cold War period and what are the policy-making obstacles to this.

This chapter then moved on to investigate the debate in Western and Japanese scholarship on the nature of power after the Cold War. The aim was to discover within the scholarship a conception of a state that uses economic power for security purposes, and which could then be used as a model to test the questions raised above concerning the utility of economic power as security policy and the future of Japan's security policy after the Cold War. By examining the basic tenets of realism, liberalism, and Marxism, it was found that they share an implicit emphasis on the importance of economic power. Discussion of the debate on hegemony also revealed that international politics theory after the Cold War is moving increasingly towards the view that economic power is now the determinant of great power status and international order. It was then shown how this realisation of the importance of economic power has produced in both the West and Japan the concept of the global civilian power, which uses economic power for security ends. Japan has been seen as a prime candidate for this type of security role in the post-Cold War era, and hence global civilian power provides the necessary concept with which to investigate the future of economic and Japanese security policy. In many ways, though, global civilian power still stands more as an ideal than as a detailed theoretical model, and in order to explore the full possibilities of economic power and Japanese security policy the concept of global civilian power needs to be refined to produce a complete model that can be applied to the case of Japan. This is the task of chapters two and three.

2 Theory of economic power and security

The aim of the following chapter is to begin to construct a complete theoretical framework of economic power and security, and thus is the first step in moving towards giving shape to the model of global civilian power. The chapter begins by outlining the types of economic security policy and the key actors involved in formulating it. The chapter then moves on to consider the types of economic power and the different benefits of each to security. Next, the chapter considers the factors of vulnerability which govern the effectiveness of different types of economic power. Lastly, the chapter examines in turn each of the components of economic power to evaluate their relative utility for security policy.

THE NATURE OF SECURITY

Security can be defined as the protection of welfare from all forms of potential or actualised threats. As has been discussed already, military power was seen traditionally as the guarantor of security. However, the literature of international politics also makes it possible to conceptualise a security policy based upon economic power which fulfills the above aims, and which counters not just economic but also political and military threats.

Three main types of economic security policy can be identified, but before describing these it is necessary to note that another dominant characteristic of the concept of security is that it has been and continues to be essentially the prerogative of the state. By this it is not meant that the discussion is concerned exclusively--as neo-realists thinkers would posit--with the survival and security of states themselves. For as Barry Buzan points out, it is necessary to take a 'holistic' view of security, to think of it above and below the level of the state, and to consider how to ensure the security of the international system and individuals as well.¹

¹Barry Buzan, *People, States and Fear: The National Security Problem in International Relations* Brighton, Sussex: Wheatsheaf Books, 1983, p. 247.

Instead, the reason for concentrating on the state-centred concept of global civilian power is simply because the state has served traditionally as the main vehicle for mediation and adjustment between the different levels of security, and because it is the one actor which has been able to concentrate and wield power to form a consistent security policy. The provision of justice and security through the control of the legitimate means of violence have been the core responsibilities of states since the Middle Ages. Despite the gradual erosion of the state's monopoly on force and the 'democratisation' of the means of violence, marked most significantly by the phenomenon of terrorism in the contemporary period, the state still has access to the most powerful military weapons and retains its function as the provider of external military security and internal policing. Likewise, it can be argued that despite a corresponding erosion of the state's functions in the sphere of economics and the rise of competitors for influence such as transnational corporations, the major states continue as the largest economic actors, individually or in concert, and therefore will also be dominant in matters of economic security.

The concept of global civilian power and economic power used in the service of security is, then, focused at the level of the state. However, even whilst concentrating the analysis at this level, the neo-realist trap of assuming states to be the sole and unitary actors in security needs to be avoided. The state can be defined as comprising the institutions of government, including the administration and legislature, and its physical base of population and wealth. But even though this gives the state as a global civilian power the capacity to act independently to use economic power for security purposes, it is also the case that it may enlist the support and borrow the economic strength of the types of economic actors outlined above which are often independent of the state's control. As will be seen in the discussion on the components of economic power and in chapter five, the state and its government institutions may do this in close partnership with other economic actors, or by creating the conditions whereby other economic actors participate in the state's security project but not with that specific intention in mind. The state is

thus the leader in economic security, but can also 'farm out' its security functions to other economic actors, such as TNCs (transnational corporations). Hence, later on when the idea of Japan as a global civilian power is analysed, this will refer not just to its government but also its other economic actors.

Finally, it is not assumed that the state is a unitary actor in security. The global civilian power as a state actor is subject to checks upon the exercise of economic power for security ends not only from the international environment, but also from internal domestic political factors, conflicts between government institutions, and interaction with non-state actors that have penetrated the state's policy-making procedures. Therefore, to understand the utility of the concept of global civilian power it is also necessary to consider the degree of control that a state can exercise over its economic power resources and the effect that the internal policy-making procedure has upon it. The importance of this idea is outlined in this chapter, and also dealt with in detail in chapter six when the restrictions of Japan's use of economic power in the case of North Korea are analysed in detail.

TYPOLGY OF ECONOMIC SECURITY

The first of the three main types of economic security can be termed as economic security to prevent or minimise the occurrence of conflict between states. Essentially it consists of attempts to create a favourable security environment by the use of economic power. Given that general economic hardship or economic friction between states can generate domestic and international instability which can then feed through into inter-state economic and even military conflict, the basic objective of this type of economic security is to eliminate within and among states the sources of conflict that originate from economic problems. Hence, economic security to minimise and prevent conflicts will feature efforts to stabilise the international economy, and, in accordance with this, efforts to promote the stability of the economy of all states by policies of cooperation and wealth creation.

An example of this type of policy on the regional scale is the US Marshall Plan initiated in 1946 to provide capital for the reconstruction of the European economies and, in turn, to aid in the prevention of the spread of Communism.² In the post-Cold War period, this type of policy can be seen in the attempts by the major developed countries since the end of the Cold War to help in the reform of the economies of Eastern Europe and Russia. The aim of this policy has been to stabilise living standards, check political discontent in the form of the reemergence of communism, extreme nationalism and ethnic separatism, and to eliminate the attendant risks of military conflict and adventurism. On a smaller sub-regional scale, the extension of trading privileges to Turkey by the European Community in 1995 is another example of preventive economic security policy. The obvious hope of the EU plan is to integrate the economy of Turkey into that of the EU, and thus ameliorate the causes of social, religious and ethnic conflict which threaten the stability of its neighbour and the security of its own borders.

The second type of economic security policy is designed to protect a state in the event of a conflict with another state coming close to or actually occurring. This type of economic security policy can be further subdivided into two areas of policy aims and activities. The first of these is the role of economic security policy to defend against the deprivation of welfare brought about by economic, political or military conflict with another state. This involves efforts to withstand the economic and subsequent political crises that result from economic costs imposed by other states, such as the economic disruption that can be caused by the sudden denial of supply or sharp rise in price of strategic commodities necessary for a state's economy to function, and the types of embargoes, sanctions and blockades that typically accompany political confrontation and war. This subdivision of economic security policy is therefore concerned with the insulation of the state from external economic shocks, and can be observed in the attempts of states to secure supplies of vital goods during wartime, and more recently in the policies of collective

²Susan Strange, *States and Markets*, London and New York, Pinter Publishers, 1994 (second edition), p. 104.

economic security put forward by developed nations in reaction to the deprivations of welfare threatened by the first Oil Shock of 1973 and the increasing control of key raw material supplies by developing nations.³

The second subdivision concerned with protecting a state's security in the event of a conflict reverses the position of the state as the subject of economic costs and makes it the imposer of economic cost. In the event of conflict, therefore, a state creates a policy which aims to inflict, or threatens to inflict, economic disruption on another state in order to force it to desist from a course of economic, political or military action which threatens the framer of the policy or other states. Hence, this policy is one of economic pressure in pursuit of security ends and usually revolves around the denial of essential economic resources to another state, such as access to key commodities, technology, trade, and capital. The resulting deprivation of welfare from this denial of economic resources denudes military potential and brings about domestic and international political repercussions which obligate the state to alter its behaviour. The results of this type of policy are, though, not always beneficial to the framer of the policy. It is arguable that economic pressure, as in the case of economic sanctions imposed on Japan by the US in the period preceding the outbreak of the Pacific War in 1941, can often produce changes in the action of states that merely harden their resolve to embark on the path of conflict.

As mentioned above, the tools of economic pressure that are often employed in a conflict are embargoes, sanctions and blockades, all of which have a long history of use. In the post-Cold War period, prominent examples of these are the sanctions in place against the former Yugoslavia and against Iraq before and after the Gulf War. It is clear that these examples of economic sanctions although used in the service of security policy are not exclusively economic in nature, and that they have relied in part for their effectiveness upon military power which ensures that

³For discussions of these problems in the 1970's, see Fred C. Bergsten, 'The threat from the Third World', *Foreign Policy*, no. 11, Summer 1973, pp. 102-24; Stephen D. Krasner, 'Oil is the exception', Fred C. Bergsten, 'The threat is real', *Foreign Policy*, no. 14, Spring 1974, pp. 84-90; Joseph S. Nye Jr., 'Collective economic security', *International Affairs*, vol. 50, no. 4, Summer 1974, pp. 584-98; and Benison Varon and Takeuchi Kenji, 'Developing countries and non-fuel minerals', *Foreign Affairs*, vol. 52, no. 3, April 1974, pp. 497-510.

sanctions concerned with the physical economic exchanges of goods and materials are enforced. As E. H. Carr observed, 'economic power is impotent if the military weapon is not held in readiness to support it. Power is indivisible.'⁴ But whilst it is true that these forms of economic pressure are often used in tandem with military power, it is also reasonable to argue that there may be instances where economic pressure on its own can produce some change in the behaviour of a state with resultant gains for security if the economic conditions are right. These conditions will be outlined later, but for the present it is suffice to note that there is moderate evidence to suggest that the sanctions imposed on South Africa which did not rely largely upon military power for their enforcement may have had an effect upon that state's political and military behaviour.

The third type of economic security policy emphasises the connection between economic and military pressure, and can be classified as the use of economic power in direct support of military power which has been designated as the means with which to ensure security in all conflicts, potential or realised. In chapter one an explanation has already been given of how many political scientists from the classical realist school of thought have long regarded economic power as an adjunct to military power, and have seen its role as one of providing the necessary physical resources upon which to build military strength. In his exposition of economic power, Klaus Knorr points out that a state's economic potential can be used in support of its security policy by providing the base for the production of its own war materiel, and also by providing economic assistance in the form of military aid to other states in order to allow them to purchase arms or to develop their own weapon production capacity.⁵

These common links between economic and military policy are undeniable and are a major feature of current thinking about security policy in many states. However, the purpose of this dissertation is to examine whether reliance

⁴E. H. Carr, *The Twenty Years' Crisis: An Introduction to the Study of International Relations*, London, Macmillan, 1951, p. 119.

⁵Klauss Knorr, *Power and Wealth: The Political Economy of International Power*, London, Macmillan, 1973, pp. 163-77.

predominantly on economic power can provide sufficient guarantees of security, and consequently the intention here is to concentrate upon the first two definitions of economic security policy as these offer the greatest chances for a global civilian power of articulating a conception of security which is not dependent in the main upon military policy.

TYOLOGY OF ECONOMIC POWER

The construction of economic security policy is based upon the existence and exercise of economic power. The next task is to elucidate the types of economic power, their nature, and their relevance to security policy. Scholarship on power in the fields of philosophy and social science is extensive and presents seemingly endless definitional permutations.⁶ On the other hand, scholarship in the field of international politics, whilst it has not entirely escaped from the tendency to put forward confusing definitions and redefinition's of power, does seem to have reached a consensus on a twofold typology of economic power.

Indirect economic power

The first type of power identified by scholars is a product of the growing interdependence witnessed in the global economy since the 1970's, and the idea that the very presence and weight of a state's economy provides it with what Funabashi Yôichi terms as *senzairyoku* or 'latent' power over other states.⁷ The argument is that a state does not necessarily need to manipulate continuously and consciously its own economic resources in order for it to acquire economic power and its associated political benefits. Instead, simply the growth in scale and

⁶For example, Kenneth Boulding presents three definitions of power: threat power, economic power and integrative power. John Kenneth Galbraith puts forward condign power, compensatory power and conditioned power. Dennis H. Wrong prefers the four categories of force, manipulation, persuasion and authority power. Kenneth Boulding, *Three Faces of Power*, London, Sage Publications, 1989, p. 10; John Kenneth Galbraith, *The Anatomy of Power*, Boston, Houghton and Mifflin Company, 1983, pp. 4-6; Dennis H. Wrong, *Power: Its Forms, Bases and Uses*, Oxford, Blackwell, 1979, p. 22.

⁷Funabashi Yôichi, *Keizai Anzenhoshôron: Chikyûkeizajidai no Pawâ Ekonomikusu*, Tôkyô, Tôyô Keizai Shimbun, 1978, p. 189.

complexity of a state's economy and its growing connections with other states can be enough for it to accrue power and security. This type of power will often be expressed through a state's influence in international markets, economic regimes, and economic institutions.

These types of arguments are found in the 1977 work of Robert Keohane and Joseph Nye: *Power and Interdependence: World Politics in Transition*. Keohane and Nye in their analysis of power comment that one way power can be conceived of is in 'terms of the control over outcomes'.⁸ At the time, the main concern of their work was to demonstrate how the growth of complex interdependence had begun to restrict the power of some states to resolve conflicts by force. But Keohane and Nye's arguments on power have also been employed in the debate over hegemony to support those who claim that the power of some states remains intact and supreme even though the nature of power itself has changed. The arguments of Russett outlined earlier emphasise that US power has been preserved due to its control over the type of outcomes described by Keohane and Nye, and are an attempt to show that power is increasingly dependent upon whether or not the international economic system works in line with a particular state's economic and political interests rather than upon its possession of narrower and more traditional indicators of economic strength.⁹

Wading into the debate over hegemonic decline in his later work, Nye develops his own arguments about types of power accredited to a state due to the scale of its economic activity and interdependence with other states. 'Soft' or 'co-optive' power, Nye contends, is expressed indirectly by a state through the control of information; the setting of economic norms in the world economy, such as free trade and the headquartering of transnational corporations; and the production and dissemination of a universal culture.¹⁰ Nye's later ideas on soft power are, then, a

⁸Robert O. Keohane and Joseph S. Nye Jr., *Power and Interdependence: World Politics in Transition*, Boston and Toronto, Little Brown and Company, 1977, p. 11.

⁹Bruce Russett, 'The mysterious case of vanishing hegemony or is Mark Twain really dead?', *International Organization*, vol. 39, no. 2, 1985, p. 83.

¹⁰Joseph S. Nye Jr., 'Soft Power', *Foreign Policy*, no. 80, Fall 1990, p. 169.

reaffirmation of the strain of thought which sees the power of a state as derived not only from the direct control of its economic resources, but also from the power that it receives indirectly from its penetration of other states economically, culturally, and ideologically.

However, it is the arguments of Knorr and Strange that have set out the most coherent theoretical framework with which to describe the forms and operation of economic power. Knorr in his 1972 work *Power and Wealth: The Political Economy of International Power* recognised early on the importance of indirect forms of power and classed them as a type of 'non-coercive influence'. He defined 'non-coercive influence' as the influence given to a state resulting from its ability to increase the choices of action for another state.¹¹ In other words, a certain state acquires influence by creating and shaping the environment in which other states function, with the result that states then tend to act broadly in concert with the interests of the creator of the environment. One of the ways in which Knorr saw states as able to influence the choice of others was through the extension of economic co-operation and linkages.¹²

Susan Strange has built upon Knorr's concept of 'non-coercive influence' in her identification of the importance of structural power in the global political economy. Structural power is defined by Strange as the ability of an actor, 'to change the range of choices open to others, without apparently putting pressure directly on them to take one decision or to make one choice rather than others.'¹³ More specifically, she argues that this power is the ability 'to shape and determine the global economy in which other states, political institutions and enterprises operate.'¹⁴ It has already been seen how Strange argues that structural power is now the most important form of power in an interdependent world economy, and it is the US's exercise of it that continues to ensure its position as a global hegemon.

¹¹Klauss Knorr, *Power and Wealth*, p. 4.

¹²Klauss Knorr, *Power and Wealth*, p. 7.

¹³Susan Strange, *States and Markets*, p. 31.

¹⁴Cited in Eric Helleiner, 'Money and influence: Japanese power in the international monetary and financial system', in Kathleen Newland (ed.), *The International Relations of Japan*, London, Macmillan, 1990, p. 23.

Strange's analysis is supported by the work of Gill and Law who concur that structural power, and particularly the structural power of capital, is preeminent.¹⁵

This view of power adopted in the scholarship allows the creation of a definition of economic power which unites the principal arguments of 'soft', 'non-coercive', and 'structural power', and which can be employed in the analysis of economic security policy. Thus, indirect economic power can be defined as the acquisition by a state, consciously or unconsciously, of the ability through the size and diversity of its economic linkages to influence indirectly the actions of another state by establishing the environment in which it operates and the possible ranges of its behaviour. In essence, as Kamo Takehiko points out, it is the ability of a state to establish the 'rules of the game' and norms of action for other states.¹⁶ In a similar fashion to Knorr's analysis of non-coercive influence, the most likely outcome of a state's acquisition of a high degree of indirect economic power over another state is that it will move in line with the economic interests of that state because it does not generally see them as being at variance with its own. Moreover, indirect economic power should affect not only the economic behavior of a state, but also the social, political and even military action of states as the costs of non-compliance or independent action outside the 'rules of the game' induce conformity in behaviour. Clearly there is a potential for conflict with states that refuse to accede to the norms of economic behaviour, but it is arguable that in general this type of power relationship will be characterised by cooperation, integration, and interdependence.

Direct economic power

The second major categorisation of power that can be conceptualised and adopted for the aims of security policy is also present in the scholarship of Keohane and Nye, Knorr, and Strange. Keohane and Nye state that after the control of outcomes

¹⁵Stephen Gill and David Law, *The Global Political Economy: Perspectives, Problems and Policies*, Hemel Hempstead, Harvester Wheatsheaf, 1988, p. 73; Stephen Gill, *American Hegemony and the Trilateral Commission*, New York, Cambridge University Press, 1990, p. 63.

¹⁶Kamo Takchiko, *Sekai Seiji o Dô Miru Ka*, Tôkyô, Iwanami Shinsho, 1995, p. 64; *Kokusai Anzenhoshô no Kôshô*, Tôkyô, Iwanami Shoten, 1995, p. 157.

the next form of power is, 'the ability of an actor to get others to do something they would not otherwise do (at an acceptable cost to the actor)'.¹⁷ Knorr highlights 'coercive influence' or simply power, which is the ability of one state to reduce the choices of another, and in economic terms saw it as the cutting off of aid and vital supplies by one state to another.¹⁸ Strange provides a definition of 'relational power' which matches that of Keohane and Nye, and Funabashi talks of 'manifest power' (*meijiryoku*).¹⁹ This second type of power, then, involves the idea of the direct control of power resources by a state in order to achieve its objective of altering the behaviour of the subject of the power relationship to the benefit of the actor that wields the power.

In economic terms, this can be defined as direct economic power, and the conscious manipulation by a state of its economic power resources to secure its own interests and to influence directly the behaviour of another state in order to change it to a course of action that it would normally not take on its own volition. The types of economic resources and linkages open to a state will be discussed later, but at this stage it is important to note that direct economic power is essentially a tool of persuasion, cajolement and pressure used in the service of a state, long or short term. Direct economic power works by the provision by one state to another of positive and negative inducements. Positive inducements, such as the extension by one state to another of trade and aid privileges, provide incentives for co-operation and compliance between states. Negative inducements, such as threats to remove a state's most favoured trading nation status, or, in extreme cases, the imposition of economic sanctions, are attempts by one state to force another into compliance with its interests. In a similar fashion to indirect forms of economic power, the exercise of direct economic power influences initially the economic behaviour of another state. But over time, as the impact of changes in economic behaviour and concomitant deprivations of welfare take effect,

¹⁷Robert O. Keohane and Joseph S. Nye Jr., *Power and Interdependence*, p. 11.

¹⁸Klauss Knorr, *Power and Wealth*, p. 4.

¹⁹Susan Strange, *States and Markets*, p. 24; Funabashi Yōichi, *Keizai Anzenhoshōron*, p. 189.

the political and military behaviour of a state may also begin to change, although the results of this are unpredictable. The direct manipulation of economic power through the offering of negative and positive inducements can be seen to involve the harmonisation as well as the confrontation of interests between states. But it is also clear that the exercise of direct economic power is more difficult and expensive than indirect forms over the long term. This is because for direct power to achieve the same magnitude of effect as indirect power a state needs to maintain and bear constantly the various economic and political costs of offering negative and positive inducements. For instance, the extension of aid by one state to another will produce co-operation between states as long as the policy can be maintained, or if the aid then generates indirect forms of power which continue the process of integration and harmonisation. But cessation of aid programmes over the short term may also terminate their security effects, diminish the influence of one state over another and reproduce the conditions for conflict.²⁰ In the same way, and as the coalition powers have experienced since the surrender of Iraq in the Gulf War, the imposition of sanctions by one state on another over a long period may become more costly economically and politically for both sides, but the impact and degree of effect on the behaviour of a state can become progressively weaker as time passes. This is due to a number of factors governing the effectiveness of all types of economic power explained below. The key point here, though, is that direct economic power may involve greater difficulties for security policy over time compared with the effects of indirect power and accompanying 'norms' of behaviour that tend towards long term harmonisation and elimination of conflict.

Up to this point the two forms of indirect and direct economic power and their chief characteristics have been identified. These findings are summarised in Table 1. However, in many cases it is often difficult to maintain these strict theoretical

²⁰As Klaus Knorr points out, during the Cold War when there were competing donors of aid, decisions by the US not to extend economic and military aid meant that it risked incurring strategic and political costs as countries looked to alternative sources for economic assistance. One notable example of this is Egypt's decision from the mid-1950's onwards to seek aid from the Soviet Union after the US in 1956 withdrew offers to fund the Aswan High Dam Project. Klaus Knorr, *Power and Wealth*, pp. 175, 186.

divisions between types of power as they shade into and overlap with each other. One example of this is that if direct economic power to offer positive inducements is used over a long enough period of time, the rules of behaviour and benefits associated with it may become accepted as economic norms or the 'rules of the game' and in its effects it may become indistinguishable from indirect economic power. This demonstrates that the relationship between indirect and direct economic power is close and often interchangeable. As a consequence, indirect economic power is likely to be often created through the operation of direct economic power, and, in turn, the use of direct economic power will draw upon indirect economic power for its strength and the magnitude of its effect. The global civilian power, therefore, will have to have command of both indirect and direct forms of power if it is to create a truly successful security policy based on economic power.

Table 1: Definitions and characteristics of types of economic power

Type of economic power	Definition	Characteristics
Indirect economic power	The acquisition by a state of the ability through the size and diversity of its economic linkages to influence indirectly the actions of another state by establishing the economic environment in which it operates in and the possible ranges of its behaviour	Economic cooperation, integration and interdependence
Direct economic power	The acquisition by a state of the ability to manipulate consciously its economic power to secure its own interests and to influence directly the behaviour of another state in order to change it to a course of action that it would not normally take on its own volition	Provision of positive and negative inducements to other states

THE RELATIONSHIP BETWEEN SECURITY AND THE TYPES OF ECONOMIC POWER

Having produced typologies of economic security and economic power it is essential to examine how they relate to each other and the utility of economic power for the security policy of a state. A summary of the discussion in this section is provided in Table 2.

The first category of economic security policy is intended to minimise or eliminate the occurrence of conflict among and between states by creating a favourable security environment based on a favourable economic environment. Both indirect and direct forms of economic power should be adaptable to the aims of this policy. Indirect economic power, as has been seen, is characterised by the acceptance of economic norms amongst states, and results in the growth of cooperative ties which then alleviate the sources of conflict amongst states and restrains them from threatening actions towards one other. Direct economic power can be used to reinforce and build the conflict-reducing ties between states of indirect economic power. In a sense, and on the grand regional scale, the whole project of European integration under the EU is an attempt to provide all the states of Europe with indirect and direct economic power over each other's behaviour in order to remove the economic and political origins of conflict which have been the partial cause of two world wars in the region. On a smaller scale, and has already been described, one of the rationales behind the offering of positive economic inducements by the EU to Turkey has been to build economic linkages between the two, and then to generate the necessary economic wealth within Turkey to reduce political instability--a clear example of direct and indirect economic power used in support of security policy to prevent conflict.

The second main category of economic security policy is that designed for the protection of a state in the event of a conflict, either defensively or offensively. The first subdivision of this policy was the use of economic security for defence in the event of the threatened or actual deprivation of vital economic resources and welfare, with implications for social and political stability within a state. In order to counter these types of threat, direct economic power can be expected to play a major role in allowing a state to effectively marshal its resources, limit economic damage and weather any potential crises. Indirect economic power also can be thought to be important in providing a state with the depth and flexibility of economic relations through its part in establishing control of the general economic

environment. This type of power will allow a state to procure economic resources from different sources and maintain its own economic stability. Thus, it can be seen that although the first Oil Shock of 1973 impacted upon the US with severe effects initially, over the long term the US was able to use its direct and indirect economic power to obtain stable supplies of oil at favourable prices.

The second subdivision of economic security policy for the protection of a state in the event of conflict was defined as the use of economic power to change a state's actions in the event of a conflict coming close to or actually occurring. In this case direct economic power plays the most prominent role. Direct power allows a state through control of economic resources to impose economic embargoes or sanctions on another state, while indirect economic power serves as the power reserve from which to mobilise this direct economic power. Examples of this type of use of direct economic power in attempt to dissuade a state from embarking on a conflict are numerous. A representative example of this type of pressure is the use by the US of its indirect economic power and influence within the global financial system which allowed it to mobilise direct economic power and impose punitive sanctions on Iranian capital following the anti-Shah revolution of 1979.

Table 2: The relationship between economic security policy and effectiveness of types of economic power

Economic security policy aims	Effectiveness of indirect economic power	Effectiveness of direct economic power	Factors Limiting the effectiveness of economic power
Ensure the security of a state by the prevention of the outbreak of conflict	Very high	High	Vulnerability of the state upon which economic power is applied, including factors of resilience, adjustment, substitution, availability. The degree of control that an individual state can exert over the components of economic power as above
Ensure the security of a state in the event of a conflict by the use of economic pressure	Low	Very high	
Ensure the security of a state in the event of a conflict by limiting economic damage	Low	High	as above

FACTORS DETERMINING THE EFFECTIVENESS OF ECONOMIC POWER

To identify types of economic power and their likely association with types of economic security policy does not, though, explain all the factors which determine the effectiveness of economic power. In order to provide a guideline for doing so it is necessary again to turn to the scholarship on interdependence and power. The aim of this scholarship, as pointed out earlier, has been to describe the gradual divorce of economic power from state control and to demonstrate how the growth of interdependence has limited the ability of states to initiate conflicts independently. Hence, interdependency theory would seem to be alien to a 'state-centred' view of power related to questions of security policy. But at the same time as interdependency theory professes these objectives, its elevation of interdependency to the position of a key factor in relations between states which limits the use of military power, not only points to the importance of economic power as an alternative form of security policy, but also provides important insights into the efficacy of economic power and the factors that lie behind it.

Vulnerability

Keohane and Nye define dependence as 'a state of being determined or significantly affected by external forces', and interdependence as mutual dependence resulting from flows between states of money, goods, people and information. But they are also at pains to add that interdependency is different from interconnectedness in that it involves real cost if the links are cut, and that these costs are not merely economic but also social and political in nature--namely, the politics of interdependence.²¹ The crucial point which relates here to the effectiveness of economic power is that it will be determined in accordance with the depth of economic links between states and the known benefits of these links, or conversely the costs of damaging these links. If economic power is dependent upon the actual or potential costs of

²¹Robert O. Keohane and Joseph S. Nye Jr., *Power and Interdependence*, p. 8.

establishing and cutting economic linkages, then the implication is that the utility of economic security policy will be conditional upon the degree of costs that, firstly, can be imposed upon a state by another through its direct and indirect economic power, and, secondly, the degree of costs that can be borne by a state without changing its behaviour when subject to these types of economic power.

By its delineation of the concepts of sensitivity and vulnerability, interdependency theory also aids in understanding the degrees of cost imposed or borne. Keohane and Nye state that sensitivity refers to 'responses within a policy framework [and] how quickly [do] changes in one country bring costly changes in another and how great are the costly effects.'²² Consequently, the developed economic nations of the US, Europe and Japan can be said to have been sensitive to the rise in oil prices and the feared shortage of a vital economic commodity following the first Oil Shock of 1973. Sensitivity is, though, limited in scope and not necessarily sufficient to ensure changes in the behaviour of states over the long term. As Kenneth Waltz points out in his evaluation of interdependency theory, states may be sensitive to economic changes in economic conditions, but they often possess sufficient power to withstand them and are not truly vulnerable to economic shocks.²³ Keohane and Nye allow for this factor by putting forward the concept of vulnerability which is 'an actor's ability to suffer costs imposed by external forces.'²⁴ This can be re-expressed as the potential to withstand economic change without altering long term economic, social, political and even military behaviour. The developed economic states of the North, therefore, demonstrated sensitivity to the first Oil Shock, but only limited vulnerability over the longer term to the rise in oil prices, and the ability to avoid altering the fundamental course of their behaviour.

²²Robert O. Keohane and Joseph S. Nye Jr., *Power and Interdependence*, p. 12.

²³Kenneth N. Waltz, *Theory of International Politics*, London, Addison Wesley, 1979, pp. 140-42.

²⁴Robert O. Keohane and Joseph S. Nye Jr., *Power and Interdependence*, p. 13.

Determinants of vulnerability: resilience, adjustment, substitution, availability

Vulnerability is, then, the key concept in explaining the effectiveness of economic power in pursuit of security policy. The limits of vulnerability have been elucidated by Funabashi Yōichi. His ideas, although originally applied only to issues of economic defence in the event of a conflict, also are useful for understanding the effectiveness of economic power in all security scenarios. Funabashi identifies four factors which dictate the limits of vulnerability, and which provide *taishinsei*, or 'tremor-proofing' for a state's economy.²⁵

The first of these is 'resilience' (*danryokusei*). It is the ability of an economy to withstand the initial shock of the curtailment of economic links and to suffer the consequent deprivation of welfare over the long term without changing its behaviour. The Iraqi government, if not the Iraqi population, has shown a remarkable degree of resilience in its will to endure the UN sanctions imposed since 1990. The second factor is 'adjustment' (*chōseiryoku*), or the ability to make up for the loss of economic links and welfare by the use of the state's own resources. Examples of this adjustment include the stockpiles of strategic commodities held by developed nations to cope with sudden rises in price or denial of supply. The third factor is 'substitution' (*daisansei*), and is the ability to cope with the denial of access to economic activity and resources by substituting them with domestically produced forms. An example of this is South Africa's ability to manufacture its own sophisticated weapons despite embargoes on the export of arms and technology. These first three factors indicate that a state possesses a measure of self-sufficiency, or *jikyūsei*.²⁶ Funabashi's concept corresponds to that of autarky found in the work of realist political scientists, which suggests that states seek to reduce vulnerability so as to be able to resist economic pressure.²⁷ However, as Funabashi argues, too great a degree of *jikyūsei* and avoidance of dependence on

²⁵Funabashi Yōichi, *Keizai Anzenhoshōron*, p. 211.

²⁶Funabashi Yōichi, *Keizai Anzenhoshōron*, p. 212.

²⁷E. H. Carr, *The Twenty Years' Crisis*, p. 120; Kenneth N. Waltz, *Theory of International Politics*, p. 104.

economic relations with other states may in the end have negative results. As a state strives for self sufficiency, this can rob its economy of the vibrancy derived from external contacts and competition, weakening its economic power, and, paradoxically, placing the state in a position where it may have to become more dependent on other states.²⁸ The case study of the North Korean economy presented later on illustrates clearly this type of situation. The final factor is 'availability' (*aberâbiriti*) and refers to a state's capability to create alternative forms of economic links and sources of activity when they are denied to it by certain states. Until the end of the 1980's, and still to some extent in the 1990's, Cuba has ensured this factor of availability by defying the US embargo and forging trading links first with the Soviet bloc and then with a variety of nations in Europe and Asia.²⁹

Therefore, although perhaps not obvious at first sight, interdependency theory provides important indicators for judging the likely effectiveness of direct and indirect economic power. A central concept in determining the efficacy of these forms of power is the cost that can be borne or foregone by both the exerciser and subject of economic power and security policy. In turn, this is dependent upon degrees of sensitivity and vulnerability, which are then determined by the factors of resilience, adjustment, substitution, and availability.

CONTROL OF ECONOMIC POWER

The other central concept in evaluating the effectiveness of economic power is the degree of control that a state can exert over the forms of direct and indirect power, and thus the power and security benefits that accrue to it. It can be supposed that direct forms of power and their components will be easier to manipulate because they typically involve the offering of positive and negative sanctions to other states and so fall within the state's control. Indirect power, whilst offering greater

²⁸Funabashi Yôichi, *Keizai Anzenhoshôron*, p. 214.

²⁹For details on the US embargo and policy of economic warfare against Castro's regime in the 1960's see, Klaus Knorr *Power and Wealth*, pp. 146-149.

security benefits, will be harder to control due to its often intangible nature, the difficulty of altering intentionally the 'rules of the game' which have often been made under conditions of interdependency, and the presence of other economic actors who may or may not cooperate with a state's aims.

In order to understand the varying degrees to which states can exert control over and contrive to use these forms of economic power for their security interests it is necessary to look inside the internal structure of the states, and in particular at the policy-making process. As stated earlier, the concept of global civilian power and state-centred security should not assume states to be unitary actors. The very knowledge that states may have to build indirect economic power with the support of other economic actors, leads to the obvious conclusion that one of the determinants of a state's economic security will be how it may control or work in partnership with a TNC, and what are the policy-making difficulties for this. Moreover, to control direct economic power and to offer positive and negative sanctions will also involve a process of bargaining inside a state's economic and security policy-making community. The skill of a state in manipulating economic power for security will depend, then, on the characteristics of its policy-making process, the different actors involved, and whether they perceive security problems capable of being solved by economic power.

In the following section on the components of economic power the question of control by states is addressed, but the only way to truly investigate the problem is to look at the policy-making process of individual countries. Such an investigation will be carried out in chapter three for the case of Japan, but in the meantime it is reasonable to conjecture that a centrally planned or command economy will allow a state the maximum measure of control over direct power resources, whereas its control over indirect power resources will be limited outside its own economic bloc. On the other hand, a free market economy will perhaps possess large amounts of indirect power through the liberalised and internationalised nature of its

economic links, but may lack the ability to control them and convert them into direct power.

COMPONENTS OF ECONOMIC POWER

After having laid out typologies of economic security, economic power, and the conditions of their effectiveness, the final stage in conceptualising economic security policy is to categorise the economic power resources which act as the components of economic power. Laying out in this chapter a scheme of the components of economic power will provide a comprehensive overview of what types of power states can draw upon for security, and also the framework for analysing the extent of Japanese economic power in chapter three. A summary of the following discussion is provided in Table 3.

Table 3: The main components of economic power and the power accruing to states

Component of economic power	Degree of indirect power accruing to a state	Degree of direct power accruing to a state
Production	High	Medium
Finance	High	Medium
Trade	High	High
Energy	Medium	Medium
Communications	Medium	High
Aid	Medium	High

Production

Susan Strange defines the production structure as, 'the sum of all arrangements determining what is produced by whom and for whom, by what method and on what terms.'³⁰ Production is the source of wealth creation and the material basis for the formation of all societies. As such it is the foundation of political economy, and, historically, powerful states and ruling groups within the states themselves have controlled or been associated with the control of the production structure.³¹ Wealth creation endows states with the resources, welfare, and public goods that

³⁰Susan Strange, *States and Markets*, p. 64.

³¹Robert W. Cox, *Production, Power and World Order: Social Forces in the Making of History*, New York, Columbia University Press, 1987, p. 18.

on a domestic level allow it to generate stability and support, and on the international level translate into economic, political and military power. Thus, any change in the production and wealth creation structures is likely to be accompanied by changes in the power relations within and between states.

The production structure of most states since the late eighteenth century has undergone two major changes. The first of these was the move to industrialised production and market-oriented economies. This change has not been uniform, with some states proceeding at a slower pace, or choosing non-market oriented industrial production structures. The second major change in the production structure has been the internationalisation of production and the rise of MNCs (multinational corporations), or TNCs. This process of change also has been uneven and resisted by some states. However, its impact upon the power of states and economic security policy may be great, and the role of TNCs is the main concern of this section.

In Robert Gilpin's words, a TNC can be defined simply as a 'firm that owns and manages economic units in two or more countries.'³² TNCs are of three main types: extractive, manufacturing and services; and the presence of a home state's TNC in a host state is in the form of subsidiary companies and FDI (Foreign Direct Investment). The recent history of TNCs has seen the expansion of US based TNCs into Europe and the Middle East in the 1960's; followed by the rise of European, Japanese and developing nation TNCs in the 1970's and 1980's; and then a 'New Multinationalism' from the mid-1980's until the present day, marked by joint ventures and cooperation between these firms and the host states.³³ By 1969, American multinationals produced approximately \$140 billion worth of goods, more than any national economy except for the US and the USSR. In addition, according to some estimates, by 1975 the world's fifty largest corporations accounted for ten to fifteen percent of the industrial output of the non-

³²Robert Gilpin, *The Political Economy of International Relations*, Princeton, New Jersey: Princeton University Press, 1987, p. 231.

³³Robert Gilpin, *The Political Economy of International Relations*, pp. 232, 255-60.

communist world, and by 1987 TNCs employed thirty million of the ninety million manufacturing workers in OECD (Organisation for Economic Cooperation and Development) countries.³⁴ The motivations behind the internationalisation of production are varied. Corporations have sought to secure markets and to avoid trade barriers, as in the case of the move to production inside the EU by US-based TNCs in the 1960's, and then by Japanese TNCs in the 1980's. Some corporations, such as those Japanese TNCs that have moved to offshore production in China and Southeast Asia in the late 1980's and early 1990's, have sought lower production costs. Another explanation put forward by John Kenneth Galbraith is the simple human desire of TNC executives to acquire international prestige and power.³⁵

Scholarly opinion and the states themselves are split over the benefits and effects that the internationalisation of production has had upon the interests and power of states. Groups within states, especially governing elites and organised labour, often view FDI as a threat to their vested interests. In the past, socialist states controlled or shut out foreign investment altogether, whilst other states, like India, tried to restrict the flow. The concerns of governing elites and states revolve around two issues. The first of these is the economic benefits that TNCs bring to a host country. Opinion is divided over whether TNCs deliver economic development over the long term, or whether they retard development through exploitation and mismanagement of technology. The second issue is one of power. As the case study in chapter five of North Korea's programme to reform its economy will show, the fear of host states is that TNCs can represent an invasion of sovereignty, and, as Raymond Vernon notes, leave the state 'naked'.³⁶ This issue is relevant to the construction of security policy and will be discussed next.

³⁴Robert Gilpin, *The Political Economy of International Relations*, p. 239; Stephen Gill and David Law, *The Global Political Economy*, pp. 193-4.

³⁵John Kenneth Galbraith and Nicole Salinger, *Almost Everyone's Guide to Economics*, Boston, Houghton Mifflin Company, 1978, p. 69.

³⁶Raymond Vernon, *Sovereignty at Bay: The Multinational Spread of US Enterprises*, New York and London, Basic Books, 1971, p. 3.

The penetration of a host state's economy by a TNC creates a dependency relationship between both actors. The TNC acquires a degree of influence over the production and wealth creation structure of the host state, and, therefore, a degree of influence over the economic and political behaviour of the host state and its governing groups. The power of the TNC is potentially very great as it possesses ready access to the technology, capital and foreign markets which the host states believes that it requires for its economy to function. Indeed, some scholars now argue that TNCs rival states in their ability to conduct an independent diplomatic policy, and should be seen as an actor equal to states in many aspects of political economy.³⁷

The impact of TNCs upon the power of states is twofold. Firstly, TNCs can hold indirect power over a state. The weight of their presence and the business practices that they employ can come to dominate vital sectors of the host state's economy and spread an ideology of production and wealth creation that threatens to displace that of the governing elite. This indirect power can be seen as particularly threatening if it is associated with and reinforces integration into and interdependency with the economic and political interests of the TNC's home state. In certain states one fear expressed in connection with the flow of FDI from US-based multinationals is that it may transmit competing ideologies of free trade and democracy, and provide the US government with a form of indirect power. The attitude of ruling elites and states towards FDI tends, then, to be ambivalent. Preservation of domestic stability and power may be dependent upon the wealth creating opportunities that TNC investment offers, but the presence of a TNC can represent indirect power for another state and an alternative ideology that threatens the legitimate position of the governing elite.³⁸ The recognition of this fact is one reason behind China's attempts to concentrate foreign investment in Special

³⁷For examples of these types of view see, John Kenneth Galbraith, *Almost Everyone's Guide to Economics*, pp. 69-70; Susan Strange, 'Rethinking structural change in the international political economy: states, firms and diplomacy', in Richard Stubbs and Geoffrey R. D. Underhill (eds.), *Political Economy and the Changing Global Order*, London, Macmillan, 1994, p. 107.

³⁸Raymond Vernon, *Sovereignty at Bay*, pp. 197-223.

Economic Zones, which offer the advantage of promoting economic growth whilst restricting the spread of foreign ideology.

TNCs also have an impact in the area of direct economic power. Gilpin notes that the penetration of a host state's economy has, 'opened the possibility of home states utilising and manipulating [FDI and multinationals] in order to achieve foreign policy and other objectives.'³⁹ If the home state can control the resources of a TNC then it would possess the ability to offer both negative and positive incentives to home states by providing and denying access to vital foreign markets, raw materials and technology. The outcome of this would be that the home state acquires the direct economic power to influence the economic and political behaviour of the host state.

It is clear that the home states of TNCs recognise these corporations' potential as a component of economic power. Gilpin points out a number of ways in which the US has colluded with its TNCs with the aim of using them to exert the state's power abroad. The US government has looked to foster the growth of its TNCs in order to secure the US's supply of strategic raw materials, to maintain access of all US firms to foreign markets, to help with the US balance of payments, and in certain cases to promote its foreign policy.⁴⁰ One notable example of this was the attempt by President Ronald Reagan's administration to pressure US multinationals to deny the Soviet Union technology needed for the Trans-Siberian gas pipeline project.⁴¹

But it is also clear that TNCs, although potentially very powerful allies for a home state, may not always be willing allies, and that there are limits to the direct and indirect power that a home state can derive from its TNCs. The argument that a home state can control its TNCs really seems to hinge on the idea that the corporation's top management personnel are recruited from the home state and that when called upon to cooperate with state policy will fulfill their obligations as loyal

³⁹Robert Gilpin, *The Political Economy of International Relations*, p. 238.

⁴⁰Robert Gilpin, *US Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment*, New York, Basic Books, 1975, p. 147.

⁴¹Stephen Gill and David Law, *The Global Political Economy*, p. 208.

citizens. More formal controls on TNC behaviour may be of limited utility due to the internationally mobile nature of the corporations and their ability to transfer operations to states more sympathetic with their business interests. But the loyalty of the management of a TNC to its home state is not assured. Kenneth Waltz states that the large number of TNCs headquartered in the US means that, 'it is reasonable to expect that in making corporate decisions the American perspective will be the dominant one.'⁴² In 1987, Susan Strange was confident that TNC top management would be loyal to the home state, but by 1995 she had reached the opinion that, 'the loyalty of the TNC itself to the governments is no longer something that can be taken for granted.'⁴³ In most cases TNC management is likely to follow the wishes of the home government, but only when they coincide with their own. The loyalty of TNC management is difficult to gauge and likely to vary from state to state and to be dependent upon differences in the strength of national identity. In cases where the home state policy goes against the interests of the TNC the corporation may be likely to grudgingly cooperate or even to ignore the wishes of the home state. Strange's 1995 comment probably also reflects knowledge of the fact that as the processes of 'globalisation' and 'glocalisation' continue then the top management of TNCs will also move with these trends and will no longer be drawn exclusively from the 'home' state. The ties of loyalty between state and corporation will further be eroded and the TNC's use as an element of direct economic power restricted. In fact the very terms home state and host state may become a misnomer as TNCs break free increasingly from the restrictions of the institutions and idea of the state. TNCs may keep a physical presence in their original home state, but in many cases will be--to reverse metaphors--in a happy limbo of 'statelessness'; able to influence policy in the home state, but with no real responsibility to the security of it.

The processes of 'globalisation' and 'glocalisation' may also alter the indirect power effects of TNCs. As the TNC's work force becomes more internationalised

⁴²Kenneth N. Waltz, *Theory of International Politics*, p. 151.

⁴³Susan Strange, 'The persistent myth of lost American hegemony', *International Organization*, 1987, vol. 41, no. 4, p. 567; *States and Markets*, pp. 83-4.

and its products move towards further standardisation for world markets, so the ideology of the TNC may lose its distinct characteristics and association with the original home state. The contrast in ideologies between that of the corporation's home state and the host state may no longer be transmitted by the agency of the TNCs as its products and business cease to mirror that of the home state. In this instance, indirect power for the home state may be weakened, but still the integrative effects of a TNC's presence may remain but they will not be attributable to the home state. This type of problem has already been outlined in connection with the conception of 'soft power'. An integrative ideology or culture may be transmitted through the economic links and products of a TNC, but there is no reason to suppose that the recipients of this culture will associate it with that of the corporation's home state in a situation of advanced globalisation.

The second set of limits to the power of the TNCs is the host state's vulnerability. Whilst TNCs often provide essential opportunities for economic growth and can undermine the power of states, host states still have the ability to moderate their influence. States may for instance display resilience and be willing to forgo the potential benefits of economic contacts with TNCs. To some extent this will depend upon the size of the host state's economy and whether TNCs account for a large part of its production or provide key technologies. But even in states where the TNC's economic role is very large their power can be curbed. It was discussed earlier how some states have chosen to shut out TNCs or to restrict the levels of their investment. In extreme cases, states have also resorted to nationalisation to shift the terms of power between themselves and the TNCs. After 1969, with the aim of protecting its national interests, Libya pursued a policy of threatening to nationalise foreign oil companies if they did not cut production and raise prices.⁴⁴

If states find that they cannot go without the benefits of international production then they may substitute foreign-owned private TNCs for their national controlled

⁴⁴Susan Strange, *States and Markets*, p. 200.

versions; Italy's state-owned ENI (Ente Nazionale Idrocarburi) being one notable example of this.⁴⁵ Host states can also exercise availability by allowing TNCs to compete for the right to invest in the host state. The ability of a state to negotiate investment conditions favourable to its interests, though, will be affected by the value of the host state's market or raw material reserves.

The evidence suggests that the internationalisation of production and TNCs may be useful components of economic power to be used in the service of security policy. The spread of TNCs and their ideology can result in integration of the host state into the global political-economy, with benefits for stability and security. The direct power to be derived from TNCs could provide a home state with a tool to aid in promoting stability, to secure the home state's economic interests in a conflict, and as a form of economic pressure to resolve conflicts. However, the limitations of control and vulnerability affect the utility of TNCs as a component of economic power. Moreover, as with all economic relations, the relation between the TNC's home and host states contains the potential for conflict. FDI is a particularly emotive issue for many states, related to concerns about 'neo-imperialism' and external control. Relations not only between developing and developed states, but also between states at the same level of development are prone to these types of fears and tensions.

Finance

The creation and flow of credit through the agency of financial institutions and monetary systems is essential for the functioning of an industrialised and trading economy. Credit enables borrowing and lending for investment and consumption, and capital to be moved to the most productive areas of the domestic and international economy. Thus, credit affects greatly the level of production and wealth creation possible within an economy, and its absence or abundance makes for major economic costs and benefits.

⁴⁵Raymond Vernon, *Sovereignty at Bay*, p. 35.

In turn, the creation and flow of credit also has important distributive effects upon the power of states. The previous section has outlined the connection between production and economic and political power. If power is dependent upon wealth creation, and credit is a key element in this process, then it follows that a state that holds the power to deny or supply to other states access to credit creation and flows of credit, also holds the power to influence the production, wealth creation, and political behaviour of other states. Scholars from all schools of thought, whether of a Gramscian viewpoint or engaged in the debate over hegemonic decline, agree that finance and monetary systems are crucial in the ordering of the economic and political power of states. As Gilpin notes, no financial system can be judged to be neutral in its effects on power.⁴⁶ Moreover, contemporary scholarship indicates that as the volume of financial transactions increases (the value of financial transactions already exceeds the value of world trade several times), then so will the importance and complexity of this component of economic power.

The nature and growing importance of the financial structure has, therefore, two main consequences for states. Firstly, it can be expected that states will receive differing benefits and differing degrees of direct and indirect power from the financial and monetary systems; and, secondly, that knowledge of this will lead states to attempt to control these systems and to shape them to serve their interests. The next step is to examine what types of indirect and direct power these economic components confer upon a state, the extent to which states can influence them, and their utility for security policy.

Susan Strange observes that the financial structure has two inseparable aspects: the structures of the political economy which create credit; and the monetary system in which credit is denominated and through which it flows.⁴⁷ A brief explanation of both of these should reveal the types and limits of power they yield to states. The structures of political economy that create credit can be thought of as private banks, international institutions and, of course, the governments of states, which can

⁴⁶Robert Gilpin, *The Political Economy of International Relations*, p. 119.

⁴⁷Susan Strange, *States and Markets*, p. 90.

create credit in their own right and which regulate the functions of the first two. The typical instruments which they use to create credit are loans and bonds. The government also possesses the other instrument of aid, but this along with its loan functions will be dealt with in a later section devoted to this component of power. At this point consideration will be given to the influence of transactions on the private level and the power that a state can derive from them.

The initiation of a loan or investment leads to the creation of a two-way dependency relationship between creditor and debtor. In theory, a loan should provide a creditor with direct power over a debtor, either on the private institutional or state level. This is because the debtor is now dependent upon the creditor for the necessary supply of credit, and because the creditor has the ability both to set the terms the loan and to terminate the loan if it deems the terms not to have been fulfilled. If a private bank in state A lends to the private banks or government of state B, it then acquires the ability to cut-off or expand the credit of state B and potentially influence its economic and political behaviour. The private bank of state A can then be said to possess a measure of direct economic power. This arrangement should also provide the government of state A with direct economic power; albeit through the agency of the private creditor based in its territory. The private bank or creditor is likely to some degree to be subject to the laws and regulations of state A, and if state A can use this regulatory power to exert control over the creditor, it can also influence the behaviour of state B by proxy, and provide itself with a tool of direct economic power.

In practice, however, the extension of credit by one state to another through its private credit institutions may not provide it with such effective direct economic power. As with the case of the production structure, the effectiveness of the power of credit creation is subject to the limitations of vulnerability and control.

Although the initiation of a loan does create a condition of dependency between creditor and debtor, this does not automatically lead to the control of creditor over debtor. As the case of North Korea will reveal in chapter five, the debtor may

refuse to repay the loan and exercise resilience in the face of the probable loss of access to further credit; or the debtor might find availability by obtaining loans from alternative creditors and on better terms. In extreme cases the direct power of the creditor might be broken or reversed completely. If the loan is of a large enough size and the creditor commits a large enough proportion of its resources, this may lead to overstretch, and expose it to threats by the debtor to refuse to pay back loans. The creditor's fear of its own financial collapse may persuade it to renegotiate the terms of the loan with the debtor, and direct power begins to shift from the creditor to the debtor.

The issue of control of finance is also crucial. For a state to be able to exercise direct economic power it needs to be able to influence the institutions and mechanisms of credit creation, such as private banks and international credit organisations, and the terms on which they offer credit. The extent of the control of banks and institutions is likely to vary from state to state, and it is apparent that with the increasing mobility of international capital and liberalisation of the financial system since the 1970's that states are finding it more and more difficult to exert control.⁴⁸ The collapse of Barings Bank in early 1995 was one indication that the spread of new financial instruments and the global nature of banking has possibly exceeded the regulatory power of states as well as the banks themselves. The extent of direct economic power to be derived from the financial instruments of loans and bonds will also depend upon the terms of their provision. Some loans, for instance, may be made for long periods of time, and while they create a lasting dependency relationship, they may also be set on terms which mean that they cannot be used at short notice to bolster direct economic power.

Recent evidence highlights the problematic connection between credit creation and direct economic power. The debt crisis of the early 1980's demonstrated how developing nations, by threatening to default on loans made by the banks of the developed nations, reversed partly the power relationship of debtor and creditor.

⁴⁸Louis W. Pauly, 'Capital mobility, state autonomy and political legitimacy', *Journal of International Affairs*, vol. 48., no. 2, Winter 1995, p. 373.

The creditor nations have retained the power to renegotiate the terms of loans due to the weak collective bargaining position of the debtor nations, but the need to renegotiate the terms of the loans in itself shows the limits of the power of credit creation.⁴⁹

Reservations about the limits of direct economic power also raise questions about the types of indirect economic power that may accrue to a state from credit creation. The question of the indirect economic power of finance is similar to that concerning the indirect economic power of TNCs outlined in the previous section, in that it involves the idea that banks based in a home state also spread the state's values and interests through their global mobility and presence. It is arguable that even if a state does not control deliberately the activities of its banks and financial institutions, its banks do spread the financial power of the state and help to create the rules for the financial institutions of other states to follow. The loyalty to the home state of the management of a private bank is also likely to contribute to indirect power. This type of indirect power, as has already been seen with regard to TNCs, is hard to gauge. But the US may possess indirect power through the dominance in many financial markets of its banks and their business practices.

The other inseparable aspect of the financial structure identified by Strange is the international monetary system. Scholarship on international politics and hegemony is at pains to point out that historically the position of the hegemon has been filled by the state that allows its own currency to serve as the international reserve currency and the denomination in which international trade is conducted. Hegemonic theory suggests that both indirect and direct power are possessed by the provider of the international currency. The benefits of seigniorage and the ability of the US to in effect create money, whilst they may have had deleterious effects on the US economy, have certainly enabled it to maintain its forward military presence and global hegemonic position.⁵⁰ However, the direct power benefits of

⁴⁹Robert Gilpin, *The Political Economy of International Relations*, pp. 317-28.

⁵⁰Stephen Gill and David Law, *The Global Political Economy*, p. 161; Robert Gilpin, *The Political Economy of International Relations*, p. 134.

international money now appear to be increasingly matched by those of indirect power. As Gilpin argues, the provision first by Great Britain and then by the US of the public good of the reserve currency is a stabilising force in the world economy, and has allowed the promotion of trade and the progress of interdependency.⁵¹ The international monetary system is then integrative in nature and ties countries to a common standard set by the provider of the reserve currency. The successful management of the reserve currency should also lead to the capacity to establish the economic environment for other states and promote peaceful integration and cooperation.

In practice, though, the management of the reserve currency and the scope of its indirect power is problematic, and may not lead to peaceful integration. Kindleberger argued that the international financial structure is prone to 'manias, panics and crashes', and that the severity of the Great Depression was due to the collapse of world leadership in the international monetary system.⁵² The indirect power of the monetary system and its integrative effects will be influenced by how firmly it is regulated and the will of states to ensure its stability; failure on these counts may produce the reverse effect of conflict between states. The US's decision to abandon unilaterally the Bretton Woods system and to move to the paper dollar standard by 1973 contained the potential to disrupt the economies of other states and to generate conflict between them and the US. Subsequent moves by the developed nations to coordinate policy on the price of the dollar have had mixed success, but always threaten to cause conflict. Moreover, when states choose to remain outside international monetary regimes, in order to exploit the advantages of freedom for the macro-economic management of their economies, this can produce friction and impact on the political designs of other states. In one sense, the UK's unspoken objective of remaining outside the discipline of the ERM and its ability to enjoy the benefits of devaluation for its economy is an example of the limited power of international money arrangements. Added to these considerations is the fact that

⁵¹Robert Gilpin, *The Political Economy of International Relations*, p. 118.

⁵²Cited in Robert Gilpin, *The Political Economy of International Relations*, p. 130.

not only does the failure of the will of states to cooperate on international monetary problems produce discord, but also it seems that states are losing the capacity to act. The series of near collapses of the ERM system since 1992 have been due partly to a combination of political indecision and lack of policy coordination. But the speed of currency flows and the increased capacity of private investors to shake the power of central banks are additional explanations for the ERM's problems. Recent concerted efforts by central banks in 1995 to intervene and raise the price of the dollar against the yen and other currencies can be credited with restoring some confidence in the power of central banks to convince investors to reverse market trends. States still have, though, private competitors for influence in international monetary matters, and it may be the market which is now exerting indirect power and setting the rules of the game for states like the UK and France.

To summarise, the creation of credit is an essential component of indirect and direct economic power. Credit creation institutions at the private level offer both forms for states to use in security policy. In particular, direct financial power offers a state negative and positive inducements to prevent the occurrence of conflict and to help resolve conflicts if they occur. The effects of this type of power are limited by questions about government control and the vulnerability of states to financial influence. The international monetary system offers mainly indirect economic power and suggests that it could be a powerful tool of integration to reduce conflict due to its trade and wealth promoting characteristics. But the instability of the international monetary financial system and the opportunities of some states to abuse its privileges can reduce its ability to create cooperation and peace between states.

Trade

Trade provides access to raw materials and foreign markets and is, therefore, another important means for the expansion of production and wealth creation. Academic debate is divided over the benefits and effects of trade. Liberal thinkers

see free trade and exchange as bringing wealth to all states, whereas the neo-realist camp views trade as uneven in its effects and to be managed in the interests of the state.⁵³ But these schools of thought are united in seeing trade as essential to production and as a key component of economic power.

As neo-realist thinkers hint, trade is an inherently political process with implications for the ordering of power between states. Trade is one of the oldest forms of state-to-state interaction and as such is never free of state intervention. States throughout history have enjoyed financial benefits from their right to tax trade, and have sought, either on a bilateral or multilateral basis, to negotiate the terms of trade to their advantage. This process of negotiation determines the access of trading partner states to the resources, markets and technology of other states, and so their access to wealth creation. The result of this is that states that dominate the terms of trade will also dominate other states and gain power over them.

The economic power of trade is both direct and indirect. Whilst liberal thinkers have not managed to achieve a consensus about the equal benefits of free trade, a convincing argument can be made for seeing trade as a means of integration and encouraging cooperation between states. A state that can establish the general rules of the trading environment also may be able to integrate other states into its economic and political value systems. The creation in the post-World War II period of the GATT (General Agreement on Trade and Tariffs) system demonstrates how the US has acquired indirect economic power by being able to lay down the rules of trade. States may not agree with all of GATT's provisions and many states such as those of the EU have been able to create their own trade areas exempt from some GATT rules. But at the same time, there can be little doubt that the principles of this essentially US-inspired trade regime have taken hold and that states have been prepared to prolong its existence by engaging in intense negotiations during the Uruguay round (1986-1993), and then to produce its successor the WTO (World Trade Organisation). The GATT system was essentially a US-inspired creation

⁵³For a general discussion of theories of trade: Susan Strange, *States and Markets*, pp. 178-85; Robert Gilpin, *The Political Economy of International Relations*, pp. 172-83.

aimed at breaking down protected trade systems such as the British imperial preference system, but it has proved durable, kept markets open to US corporations, created an environment which serves the interests of the US and other industrialised states, and provided the US with indirect power.

Direct power is given to a state through its ability to manipulate actively the terms of trade with other states on the bilateral and multilateral levels. Control of the terms of trade enables a state to offer positive and negative inducements to other states and to influence their economic and political behaviour. Offering favourable terms of trade, or as Knorr comments the 'carrot' of foreign trade, is one form of positive inducement.⁵⁴ States may offer terms on a bilateral basis, such as a most favoured trading nation status. In addition, states may offer favourable terms by easing the access of other states into multilateral trading bodies.

Conversely, states may use the 'stick' of foreign trade and threaten to withhold trade terms from other states. States have long practiced this policy which ranges in intensity from the addition of tariffs on key exports from other states to full scale economic warfare, embargoes, and sanctions. The US's embargo on Cuba is one example of the use of this type of economic power to try to exert influence over another state in a conflictual situation. Indeed, to maintain the economic stranglehold over Cuba, the US with the Helms-Burton Act has even resorted to attempts to pressure other countries to end their business dealings with Castro's regime. The US has used periodically both the 'carrot' and the 'stick' in its recent policy towards China--linking progress on human rights issues and trade practices to China's access to favourable trade terms provided on a bilateral basis by MFN status, and on a multilateral basis by the US's ability to speed the entry of China into the WTO. Furthermore, as will be seen in chapters four and five, the US has also used this policy to handle the North Korean nuclear crisis since 1994.

The effectiveness of these 'carrot' and 'stick' approaches, as with all other components of economic power, is determined by the factors of control and

⁵⁴Klauss Knorr, *Power and Wealth*, p. 158.

vulnerability. The difficulties of controlling TNCs have already been outlined, and as a large proportion of trade is carried out by these corporations it may be difficult for a state to influence patterns of trade. The nature and importance of trade may also be making it more difficult for states to make convenient use of it as a tool of economic power. The progress of interdependence may mean that states risk interfering with trade at great cost to their own economies. Moreover, membership of international organisations restricts the freedom of some states to follow an independent line on trade policy. States can obtain exemptions from GATT provisions but the advantages of membership may mean that they are reluctant to go outside the guidelines and rework the terms of trade.

The impact of trade terms will be limited by the degree of resilience that states show in the face of the possible costs to be imposed if they are denied access to better trading terms or trade altogether. States with a low rate of dependency on foreign trade for key resources or markets are likely to have greater resilience, and many states are willing to sacrifice entry into trading systems if they feel that it conflicts with their own economic and political interests. Other states such as South Africa were able in the past to demonstrate some ability to substitute and supply from their own resources those that were denied to them by international trade restrictions. Finally, states can exercise availability. Cuba in the 1950's found alternative markets in the Soviet Bloc, and, as the case of North Korea will again show in chapter five, many of the so-called 'pariah' states of the contemporary period have found trade between themselves to be a useful way to avoid the effects of sanctions.

Trade can then be viewed as of use to security policy in promoting stability between nations either by its indirect integrative power or by its use as a bridgehead for establishing friendly links between states. In the event of a conflict direct economic pressure via trade restrictions offers another tool of security policy. However, the effectiveness of trade's economic power is tempered by problems of

control and vulnerability, and the knowledge that trade promotes integration but can also be a major source of friction between states.

Energy

No economy--planned, mixed, or market--can function without energy. The generation and supply of energy is essential for industrial production, the running of transport systems, and meets the demand of domestic users for heating and light. The absence of stable sources of energy supply, as the case of North Korea will demonstrate in chapters four and five, can even induce the near economic collapse of states with resultant problems for security. Knowledge of the importance of energy has lead states to try to control its supply since the beginning of the industrial age: beginning with coal resources and then moving on to oil and uranium ore. The Gulf War was one demonstration of the crucial importance of oil to the industrialised nations and their continued willingness to wage war to ensure its supply.

Indirect power may be acquired by a state due to the size of its share of the energy market. A state such as the US, which is the world's largest single consumer of energy and particularly oil, can be expected to influence the energy needs and supplies of other nations.⁵⁵ Increased demand in the US for oil, for instance, may lead to higher energy prices or other states and impact indirectly on their economic and political behaviour.

Direct power is given to a state by its ability to control directly supplies and the generation of energy for other states. Offers to supply energy or the technology that will increase the efficiency of energy generation are positive inducements. Moves to restrict energy supplies of new energy technologies are negative inducements. Both forms of inducement amount to direct economic power for a state.

⁵⁵In 1992 the US was estimated to have consumed close to 800 million tons of oil; compared to a figure of around 300 million tons for the states of the former Soviet Union; and 250 million tons for Japan. Miyazaki Isamu , *Sekai Keizai Zusetsu*, Tôkyô, Iwanami Shoten, 1995, p. 125.

The capacity of states to master these forms of indirect and direct power is uncertain. Strange points out that the control of the supply of oil has been fragmented since its rise as the key energy commodity. The control of oil supplies passed from states to multinationals between the end of World War I and the 1960's, and then to the producers of OPEC (Organisation of Petroleum Exporting Countries) in the late 1960's and early 1970's. This has been followed by a mixed form of control involving states, companies, producers and the market, beginning in the mid-1970's and continuing into the 1990's.⁵⁶ This confused picture of control means that for a state to exercise power over energy supplies it needs to occupy a very large share of the energy market in order to influence demand. Furthermore, a state will need to be able to exercise control not only over the market, but also over the companies in the energy market. Control on the international level will need to be over TNCs involved in extracting and trading in energy resources, and on the domestic level over those energy companies that utilise these resources and develop technology to generate energy. The problems of controlling TNCs have already been touched upon in the section on the production structure. Control on the domestic level may be easier as many companies are wholly or partly state owned and regulated by the state.

The limits of indirect and direct power will further be determined by the factor of vulnerability. Energy is essential to an economy but states have displayed resilience in instances where energy supplies have been threatened. States are also capable of substituting foreign supplies of energy with their own stockpile supplies or by creating alternative forms of energy. Lastly, states may be able to secure supplies of energy from different states if denied it by others.

The most obvious application of energy policy to security policy is the efforts of states to protect themselves from economic shocks brought about by possible curtailment of energy supplies. The policies of the developed states to cope with rises in oil prices in the 1970's following the first Oil Shock are one example of

⁵⁶Susan Strange, *States and Markets*, pp. 197-202.

this. Energy has also been used by developed states as a component of direct economic power to pressure other states into changing their behaviour. The oil embargo imposed on Rhodesia by the United Nations in 1966 was one attempt at this policy.⁵⁷ However, energy may also be used by developed nations to support efforts to reduce the economic causes of conflict. One of the chief concerns of development aid has been to ensure stable supplies of energy for the recipient countries, to stabilise their economies, and lay a foundation for economic growth. The example of KEDO (Korean Energy Development Organisation) presented in chapters four and five will illustrate in detail how the US, Japan, and South Korea have used the component of energy in order to moderate North Korea's security behaviour.

Communications and knowledge

Land, sea and air transport systems are vital for the movement of goods and people and the trade upon which much of wealth creation is dependent. The influence over the construction and running of transport systems provides political as well as economic power. In a similar way to trade, the negotiation of the terms of access of states to transport systems is a political process and revolves around the potential costs that will be imposed by one side on the other by restricting and increasing freedom of access. The types of economic costs that can be imposed on a state by its isolation, either voluntarily or involuntarily, from sources of knowledge and communications links will be made clear when North Korea's economic vulnerability is analysed in chapter five.

Indirect power over transport systems may arise due to the size of a state's presence in the market for transport and its ability to set the international rules for its operation. The US may have acquired indirect power in air transport systems due the scale of its air transport market, position as a central transport node for the carriers of many states, and because of its near total control until recently of the

⁵⁷Klauss Knorr, *Power and Wealth*, p. 156.

manufacture and standards of transport aircraft. Similarly, the UK could also be said to have some degree of indirect power over sea transport due to the location on its territory of Lloyds of London, the world leader in shipping insurance, and the Baltic Exchange, a major shipping market.⁵⁸

Control of transport systems brings both direct and indirect power benefits. States can deny or offer to other states access to their transport markets and systems. Isolation from world markets and foreign resources is likely to have a powerful influence over some states and alter their behaviour. Alternatively, states can promote transport links between themselves in order to promote interdependency and economic growth, so adding to indirect power.

Air, sea and land transportation systems are likely to differ in the extent to which they can be manipulated by states to suit their interests. Sea transport is perhaps the least easy to control. The Flag of Convenience (FoC) system created by the US after World War I has led to the weakening of the control of most states, apart from the US, over merchant fleets, and there are few international bodies to regulate shipping terms. However, states still have the option of exerting control by simply closing their ports to shipping traffic.

Air transport is more easily controlled by states. States have the right to control their own airspace, and international bodies to regulate air transport exist only with the agreement of states. Also many states are major players in the commercial air transport business through their stakes in flag carrier airlines. Land transport is probably the easiest transport system for states to control. By controlling their land borders, states have the option to open up new land links, and to reopen and maintain existing ones. But even this control is not total, as the land borders of many states are porous and can support small scale border trade which is beyond the control of state governments.

⁵⁸Susan Strange, *States and Markets*, pp. 159-60.

The knowledge and information structure is the least well understood of the economic components of power, and analysis rarely moves beyond the vague notion that knowledge is power. Strange, however, has attempted to tackle this problem in depth, and relying on her analysis, the attempt here is to make some brief comments about the possible links between knowledge, economic power, and security policy.

Strange identifies three types of knowledge. The first type is changes in the provision of information and communication systems. Subsequently, this produces a second type of knowledge concerned with changes in the use of language and non-verbal communication, and then a third type concerned with changes in perceptions and beliefs, 'which influence value judgements and through them, political and economic decisions and policies.'⁵⁹ In addition, Strange notes that the knowledge structure involves both a positive and negative capacity to convey and deny knowledge.

The provision and domination of communication systems can be seen to have a highly integrative effect in the modern world economy. The increased speed of financial transactions, for example, has increased the integration of financial markets and the economic interdependency of nations. The indirect power that a state can derive from this is hard to judge. But certainly with regard to the field of telecommunications the US seems to have benefited from the spread of this knowledge structure, and this is probably one explanation for its willingness to see the continued liberalisation of these markets. One example of the potential indirect power benefits of telecommunications is the Internet and the US's central position within the spread of this global knowledge structure. In theory, no one state is able to control the Internet due to its complexity and scale. But Internet systems are based on software often developed in the US and the use of English demanded of most Internet users means that they are working often in a US constructed and influenced environment. How far users may make the mental connection between

⁵⁹Susan Strange, *States and Markets*, p. 120.

the US and the Internet is impossible to determine, but nevertheless a degree of indirect power may accrue to the US. States may also acquire indirect power due to the cultural impact of the flow of information along communication systems. The importance of this type of soft power has already been discussed and is notoriously hard to measure. But the spread of one state's culture to another at least may have integrative and indirect power effects for security.

The control of states over technology and communication systems is also an unknown quantity. Some commentators have seen the 'information revolution' as empowering the individual and undermining the power of states. This view may, though, be premature. States in the past have shown a ready ability to adopt new communication systems, such as the telegraph, telephone and satellite, and to use them to reinforce their power.

Moreover, the vulnerability of states to changes in communication systems is hard to evaluate. Many states are prepared to try to reject new communication systems if they see them as a threat to their economic and political ideology. China's attempt to limit the types of information transmitted through the Internet is one example of these concerns on the part of a state.

The security benefits of communication systems are well known for military power but less so for economic power. Integration caused by new technology may help to reduce conflict, and the ability of some states to offer others new telecommunications links is a useful positive inducement for cooperation between states.

Economic Aid

Foreign aid is 'the concessionary transfer of resources from one government to another.'⁶⁰ The resources can be in the form of goods, equipment or technology. The transfers can be made bilaterally, directly from one government to another, or multilaterally through international agencies such as the World Bank, the Asian

⁶⁰Klauss Knorr, *Power and Wealth*, p. 165.

Development Bank and the European Bank for Reconstruction and Development. Both military and economic aid are common, but for the purposes of this analysis an attempt will be made to separate the two and the concentration will be upon economic aid.

Economic aid can be divided into two categories: humanitarian aid intended to help over the short term for relief from natural and man-made disasters; and economic development aid designed to help over the long term in the promotion of economic stability. The conditions with which the donor state provides aid to the recipient state can also be divided into two categories. 'Tied' aid usually has conditions attached which obligate the recipient state to use the aid for a specific project and to procure goods and services for the project from the corporations of the donor state. 'Untied' aid resembles more of a gift and usually has a large grant element. But in some cases the distinction between tied and untied aid is hard to preserve. Many loans although provided with conditions are set a concessionary terms with low interest rates and long repayment periods. These types of 'soft' loans are almost untied in nature.

The provision of aid establishes a clear dependency relationship between donor and recipient. As Strange argues, the giving of aid usually involves, 'some kind of bargain, a political/economic exchange that serves as much to reinforce authority as it does to alleviate wants.'⁶¹ The donor gains the ability to offer negative and positive inducements by reducing or increasing aid. At the state level, the opportunities and costs of aid provision are apparent to both donor and recipient states, and establish direct power for the former over the latter. All forms of aid establish this type of relationship. Even humanitarian aid which is often felt to a nonpolitical *per se* can have political effects. This type of aid can prop up unstable regimes whose policies are responsible in the first place for the disaster that the aid is intended to deal with, and food aid can increase the dependency of recipient

⁶¹Susan Strange, *States and Markets*, p. 213.

states on the donor state by weakening self-sufficiency in agriculture.⁶² The case study of the North Korean economy presented in chapter five is just such an instance of where food aid is being used to create a dependency relationship between the US and North Korea, with benefits for the security of both states.

The direct power promised to states by the provision of aid to other states means that they are keen to employ it as a component of economic power and security policy. Aid can provide immediate security benefits by stabilising countries economically and politically in a period of crisis. Over a longer period of time the economic development that aid is intended to generate helps to promote cooperation between states. It can also produce a congenial political environment by reinforcing a state's indirect power. One of the rationales behind the US and USSR's provision of aid during the Cold War was to promote their separate ideologies.

The power derived from aid will depend upon the conditions under which the aid is provided to the recipient state. Untied aid may be effective over the short term in enhancing friendly relations between states as there are no conditions attached and no pressure for the recipient state to give anything in return. But as Klaus Knorr points out, even the success of aid with a large grant element is not assured. Some states may react adversely to the offer of aid because it conveys the image of the state's subjugation to the stronger donor state.⁶³ Added to this, the costs of untied aid can be greater over the long term. For even though it may buy the goodwill of the recipient, it can raise the expectations which the donor will find hard to satisfy on a continued basis. Tied aid with its attached conditions may be effective in prolonging the dependency or cooperative relationship between donor and recipient over the long term, but the conditions can also lead to resentment and conflict.

Moreover, aid programmes are not always easily manipulated for political effect by a state's government. Often the provision of aid is subject to the scrutiny of

⁶²Hans J. Morgenthau, 'A political theory of foreign aid', *The American Political Science Review*, vol. 56, no. 2, September 1963, pp. 301-2.

⁶³Klauss Knorr, *Power and Wealth*, p. 180.

domestic democratic and government institutions which can veto types of aid or aid to states that it deems undesirable. Thus, even if a state wishes to use aid to support its security policy to deal with conflicts, it may be prevented from doing so by domestic opinion. Aid is not always a component of economic power which is easy to manipulate in the service of security policy due to the bureaucratic procedures involved in its administration, and because in many instances the rationale for aid is an historical connection between states--such as that between a state and its ex-colony--which means that the direction of a state's aid resources cannot be switched easily.

Another determinant of a state's degree of control over aid is its position within international agencies for distributing aid. The US is able to influence aid given on a multilateral basis by the World Bank, and to ensure that it is provided on terms roughly in line with the US's economic and political aims. It has even been able to block aid to certain states such as Allende's Chile.⁶⁴ The majority of aid is made on a bilateral basis from government to government, but a state which can control aid flows through multilateral institutions also will possess an even larger degree of power.

Although aid is quite clearly a major component of direct economic power, many states have the resilience to turn down aid and the ability to seek alternative sources. States can continue to function even when aid is lost to them, and Knorr suggests that it is only in cases where a state's economy is in serious danger of decline that aid can really produce major swings in a state's behaviour. He puts forward the example of US threats to cut-off Marshall Plan aid to the government of the Netherlands in 1948 if it did not agree to independence negotiations with Indonesia. This occurred at a time of economic crisis for the Netherlands and had the necessary leverage to produce the desired effect.⁶⁵ In other cases, aid may be important for a state's economy but the effect of its loss may be limited as the state is prepared to put up with a certain amount of economic hardship rather than change

⁶⁴Stephen Gill and David Law, *The Global Political Economy*, p. 298.

⁶⁵Klauss Knorr, *Power and Wealth*, p. 173.

its behaviour. Some states, as will be seen from the example of North Korea presented in chapter five, are even willing to forgo aid in the midst of near famine conditions in order to preserve their political independence.

The other important check on the influence of aid is the ability of states to find alternative donors of aid if it is denied to them by a state or international agency. During the Cold War the number of potential donors to a state in an area of geo-strategic importance were comparatively large, which meant that to some extent the state was free to negotiate advantageous terms for the aid. But in the contemporary period, with reduced superpower rivalry and reduced levels of aid on offer from some developed states, a recipient state may have less availability and be more exposed to the direct power of the donor states.

SUMMARY

This chapter by using Western and Japanese scholarship has constructed a complete model of economic security, economic power, the components of economic power and the possibilities and limitations for their usage by states. The model connects together for the first time much of the previously separate scholarship on economic power and security and gives fuller theoretical shape to the concept of global civilian power. The model makes clear that the security aims of the global civilian power will be primarily to use economic power to remove the sources of conflict among states, but that in certain cases it will also use economic power to impose costs on other states that are a threat to it. In order to create an environment conducive to peace, the global civilian power will need to command both direct and indirect economic power--subject to the factors of vulnerability--across a wide range of components. In particular, it will need to supplement its power by borrowing the economic strength of non-state actors, such as TNCs, so as to extend indirect economic power with all its attendant benefits for security. Having outlined a general framework for global civilian power in this chapter, the task of

the next chapter is to take this framework and apply it to Japan in order to assess its economic power and its capability to act as a global civilian power.

3 Japanese economic power and policy-making

Having outlined in chapter two a theory of economic power and security to give theoretical structure to the concept of the global civilian power, this chapter will now transfer this theory to look at the general economic power of Japan, the types of direct and indirect derived from it, and the likely benefits of this for Japanese security. From this it will be possible to judge Japan's 'power manifesto' and capacity to act as a global civilian power. The detailed overview of Japan's economic power will also lay the foundations to make it possible in chapter five to examine the links between the Japanese and North Korean economies in order to test empirically the model of global civilian power against the specific security problem of North Korea.

THE JAPANESE POLICY-MAKING PROCESS

Before looking at the individual components of economic power, it is necessary to examine the policy-making system of Japan show how this may affect the extent of direct and indirect economic power accruing to Japan, and the ability of Japan as a global civilian power to mould this power to Japan's security needs. For as explained at the start of chapter two, although the concept of global civilian power is 'state-centred' in that the state and its government institutions are seen as the main actors capable of coordinating economic power resources for security policy, the benefits of which it then passes on to the individuals in its population, it is also clear that the state is neither the sole actor, and nor is it a unitary actor in the field of economic security policy. Indeed, as has been seen, the very concept of indirect economic power and the links between the power of the state and the power of other economic actors which vary in their allegiance to the state, such as TNCs, argues that a global civilian power and its state institutions need to be able to control and enlist the support of these economic actors to create a truly effective security policy. The limits of Japanese global civilian power will be found in how far the

state can incorporate and satisfy the interests of a range of external domestic and foreign actors within the policy-making process. Moreover, the effectiveness of the global civilian power will be affected not only by the interaction between state institutions and other economic actors which have to be accommodated within the policy-making process, but also by the usual conflict of interests between the policy-making actors of the state itself, defined as the bureaucrats and politicians.

Therefore, in the case of Japan it cannot be assumed that the state will be the sole and unitary actor, and in the next section it is necessary to examine the internal policy-making process in order to ask who or what are the main actors, how these effect the types of direct and indirect power accruing to the state, and the implications for security policy. Furthermore, this analysis of the policy-making structures in Japan will be necessary for the empirical testing of the model of global civilian power in chapters four to six, when it will be shown what sort of policy-making difficulties have obstructed Japan's use of economic power for security policy in the case of the North Korean security problem.

'Japan Inc.'

Some of the earliest analyses of the Japanese state in the area of economics saw it essentially as a unitary actor and one unchallenged by any other actor, including private business. This view was based upon knowledge of the involvement of the Japanese state's economic bureaucracy in the rapid industrialisation of the economy during the Meiji era, and in cooperation with private *zaibatsu* industrial groups to gear the economy to serve the interests of Japanese imperialism prior to and during World War II. The obvious continuity in the post-war period of Japan's pre-war economic bureaucracy and *zaibatsu* industrial groupings, combined with stable one-party conservative government and a remarkable record of economic growth, persuaded some commentators in the 1970's that there was an unbreakable bond between the Japanese state and the management of the Japanese economy.¹

¹For a history of the pre-war Japanese economic bureaucracy, see Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, Stanford California: Stanford

The most extreme manifestation of this type of interpretation is the corruption in the media and the adoption in some academic opinion of James Abegglen's term 'Japan Incorporated'. According to this type view, the Japanese economic juggernaut is carefully guided by the elite of what Herman Kahn termed the Japanese 'superstate'.² This elite consists of a policy-making 'triad', dominated by the 'mandarins' of a unified central economic bureaucracy, supported by the leaders of big business, and given free rein to operate under the political protection of a compliant conservative party in the shape of the Liberal Democratic Party (LDP).³ Since the 1970's, the 'Japan Inc.' theory of policy-making has continued to be advanced by scholars such as William Nester and Thomas Huber. Nester prefers a 'corporatist' model of growth to explain what he regards as Japan's neo-mercantilist policies, whereas Huber produces a model of 'strategic economy' in Japan. Huber's model views the policy-making structure as akin to a military force, with MITI (Ministry of International Trade and Industry) as the general staff handing down directives to willing subordinates in manufacturing industry, private commercial banks, and general trading companies.⁴

The 'Japan Inc.' view, then, really sees no differentiation in the economic policy-making process between the interests of the state, as represented by the bureaucracy and politicians, and those of private business; in effect they are seen as one and the same in the pursuit of the goal of economic growth, with the latter fully incorporated into the policy-making process. In addition, the tight links between these three actors means that the policy-making process is isolated from external domestic and foreign pressures. Given the existence of this type of view, it could

University Press, 1982, pp. 38-41; 'MITI and Japanese international economic policy', in Robert Scalapino (ed.), *The Foreign Policy of Modern Japan*, Berkeley, California: University of California Press, 1977, p. 234.

²Herman Kahn, *The Emerging Japanese Superstate: Challenge and Response*, Middlesex, Pelican Books, 1973.

³The terms 'triad' and 'mandarin' are taken from: William R. Nester, *The Foundations of Japanese Power: Continuities, Changes and Challenges*, London, Macmillan, 1990, p. 30; Clyde V. Prestowitz Jr., *Trading Places: How We Allowed Japan to Take the Lead*, New York, Basic Books, 1988, p. 115.

⁴William R. Nester, *Japan's Growing Power Over East Asia and the World Economy*, London, Macmillan, 1990, p. 139; *The Foundations of Japanese Power*, p. 16; Thomas Huber, *Strategic Economy in Japan*, Boulder, Colorado: Westview Press, 1994, p. 5.

be imagined that if any state can wield, manipulate and shape economic power in the service of its security interests, then it should be Japan. The consensus between its major economic actors combined with the obvious size of Japan's economic resources implies a state able to accumulate under its control all the components of direct and indirect economic power and to use them to construct a viable security policy. Hence, if the 'Japan Inc.' view of Japanese policy-making is accepted, the Japanese state should have the necessary control of its economic resources for it to fulfill with ease the role of a global civilian power.

However, it is also apparent that since the 1970's, and despite the continued touting of the 'Japan Inc.' line by some, scholars have begun to look for a more complex analysis of the Japanese policy-making process, and that the view of the Japanese state as a unitary actor and immune from the influence of other actors has come under attack.⁵ The following sections will look briefly at how this debate has developed and how the policy-making process and its actors in Japan have come to be understood.

Business versus bureaucrats

The first assault upon the more popularized versions of the 'Japan Inc.' and 'superstate' concepts was made by Hugh Patrick and Henry Rosovsky in the mid-1970's. Their liberal, or as characterised by Chalmers Johnson, 'no miracle' view rejected the undifferentiated state-centred 'Japan Inc.' model, and instigated instead an essentially market-oriented economic model, with growth lead by the private sector, and a secondary role for government in helping to create a favourable environment for private business initiatives.⁶ In addition to the emphasis upon the influence of private business and market forces as actors in economic policy, Patrick and Rosovsky's view was also instructive in drawing attention back to the

⁵Clyde V. Prestowitz, *Changing Places*, pp. 115-6; Karel Van Wolferen, *The Enigma of Japanese Power: People and Politics in a Stateless Nation*, New York, Alfred A. Knopf, 1989, p. 394.

⁶Chalmers Johnson, *MITI and the Japanese Miracle*, p. 9; Hugh Patrick and Henry Rosovsky, 'Japan's economic performance: an overview', in Hugh Patrick and Henry Rosovsky (eds.), *Asia's New Giant: How the Japanese Economy Works*, Washington DC, The Brookings Institute, 1976, pp. 47-52.

divergence of interests between the main industrial policy actors, comprising big business, and, for the state, the economic bureaucracy and LDP politicians. They noted that the economic bureaucracy was often divided amongst itself, with MITI, the Ministry of Finance (MOF), the Bank of Japan (BOJ) and the Economic Planning Agency (EPA) stressing different policy priorities. Patrick and Rosovsky also highlighted the factional divisions within the LDP over industrial policy, and the friction generated between the bureaucracy and big business when the latter rejected the directives of the former, as in the case of Tôyô Kôgyô's refusal to merge with Honda in the early 1970's.

The arguments of Patrick and Rosovsky in this period were also supported by Philip Trezise and Suzuki Yukio, and are important in that they provided an early indication of the factors which inhibit the control of the Japanese state over the economy, namely: the acceptance of big business as an independent actor, integrated into the Japanese policy-making structure but often capable of having interests divergent from those of the bureaucratic and political policy-making actors of the state; and also the conflicts inside the state between and within bureaucratic institutions and the political parties.⁷ Patrick and Rosovsky to some extent were picking up on the earlier arguments of Fukui Haruhiro. Even though Fukui chose to stress the central role of the state (defined as the bureaucracy, LDP, and big business interests), and the autonomy of its elite from pluralistic pressures such as the opposition parties and the labour movement, he also acknowledged that antagonism between the three main economic actors could interfere with the decision making process.⁸ This theme of division between Japanese economic and policy-making actors identified in the work of Patrick and Rosovsky, and of Fukui, reoccurs in all subsequent scholarship on industrial policy.

In the late 1970's and early 1980's, Chalmers Johnson, assisted at first by T. J. Pempel, sought to overturn the liberal market-oriented view and the conclusions

⁷Philip H. Trezise and Suzuki Yukio, 'Politics, government and economic growth in Japan', in Hugh Patrick and Henry Rosovsky (eds.), *Asia's New Giant*, pp. 757-811.

⁸Fukui Haruhiro, 'Economic planning in postwar Japan: a case study in policy making', *Asian Survey*, vol. 12, no. 4, April 1972, pp. 337-38.

about the influence of big business, and to reassert the central role of the state; which for Johnson meant MITI and the economic bureaucracy. Johnson, whilst not seeking to rehabilitate what he saw as overstated 'Japan Inc.' views, did offer an alternative state-centred concept of the 'plan-rational system' or 'developmental state'.⁹ Johnson's and Pempel's revisionist views focused on the economic bureaucracy's near total control of industrial and other policy, and argued for the general exclusion of politicians from the decision making process.¹⁰ In particular, Johnson saw MITI's power as supreme, and based originally upon its statutory rights to license and approve the operations of specific industries, to create cartels and industrial associations, and its domination of industrial financing through foreign exchange laws and the channelling of funds through the Japan Development Bank (JDB) and the Export-Import Bank of Japan. The erosion of MITI's formal powers in the late 1960's with the onset of pressures for liberalization, meant that in order to retain control of industrial policy MITI switched to reliance more upon informal tools of 'administrative guidance' (*gyôsei shidô*), and the 'colonization' of other sections of the bureaucracy, such as the EPA.¹¹

Hence, Johnson and Pempel presented a different model from Patrick and Rosovsky to explain Japanese economic growth, and one which stressed a large measure of state control as vested in the bureaucracy. Taken to its logical conclusion, this model of policy-making which excludes the input of big business and politicians would suggest that the bureaucracy in Japan could mobilise at will direct and indirect economic power for the security interests of the state.

⁹Chalmers Johnson, *MITI and the Japanese Miracle*, p. 22-3; T. J. Pempel, 'Japanese foreign economic policy: the domestic bases for international behaviour,' *International Organization*, vol. 31, no. 4, Autumn 1979, pp. 723-74.

¹⁰Chalmers Johnson, 'Japan: who governs? An essay on official democracy', in Chalmers Johnson, *Japan Who Governs? The Rise of the Developmental State*, New York, W. W. Norton and Company, 1995, p. 123. T. J. Pempel pointed to the bureaucracy's domination over politicians in the policy-making process in Japan in four ways: the Diet's declining legislative control; the close links in terms of personnel between the bureaucracy, the increased use of administrative directives; and bureaucratic influence over advisory committees. T. J. Pempel, 'The bureaucratization of policy-making in post-War Japan', *American Journal of Political Science: Quarterly Journal of the Midwest Political Science Association*, vol. 18, no. 4, November 1974, pp. 647-64.

¹¹Chalmers Johnson, 'MITI and Japanese international economic policy', pp. 246-60.

But in the late 1980's and early 1990's the views of the 'arch-revisionist' Johnson have themselves been challenged by a new breed of 'revisionists', lead by Richard J. Samuels and Kent E. Calder, who have attempted to downgrade the influence of the state bureaucracy and to rehabilitate the influence of big business in the policy-making process.¹² In his 1987 work *The Business of the Japanese State*, Samuels attempts to instigate a new model of 'reciprocal consent' to explain the limits of state control in the energy sector. According to Samuels' model, private firms have ceded control of the energy industry to the state's economic bureaucracy and MITI only in return for guarantees of control over the market place for private firms. Samuels contends that the Japanese state's limited power over the energy industry is not from a lack of attempts by MITI to impose control, but rather that, based on evidence from the coal, oil, nuclear and domestic nuclear energy generating industries, the state's power has been resisted by private firms in these sectors. The result of this struggle for control has been a compromise to allow the state to participate in the energy industry but on terms dictated by the private firms.¹³ Hence, Samuels presents a picture of highly fragmented control over the energy industry--split between private firms and MITI, with sometimes a crucial role for the politicians in determining the final outcome of disputes.

The views of Calder concerning industrial policy and state control of the economy first developed in his 1988 work *Crisis and Compensation*, and then given in more detail in his 1993 *Strategic Capitalism*, support the conclusions of Samuels.¹⁴ Calder criticises the overemphasis upon the role of MITI in many works on Japanese industrial policy, and points out the sectoral limitations to its power in areas such as communications, shipping and shipbuilding, and finance and taxation. He also asserts that it is necessary to provide more detailed

¹²Stephen Wilks and Maurice Wright, 'The Japanese bureaucracy in the industrial policy process,' in Stephen Wilks and Maurice Wright (eds.), *The Promotion and Regulation of Industry in Japan*, p. 34.

¹³Richard J. Samuels, *The Business of the Japanese State*, pp. xi, 2.

¹⁴Kent E. Calder, *Crisis and Compensation: Public Policy and Political Stability in Japan, 1949-1986*, Princeton, New Jersey: Princeton University Press, 1988; *Strategic Capitalism: Private Business and Public Purpose in Japanese Industrial Finance*, Princeton, New Jersey: Princeton University Press, 1993.

examinations of the role of private industry and politicians in the policy-making process. With this aim in mind, Calder broadens the discussion of policy-making to include more equally the three elements of the bureaucracy, private firms and politicians, and presents his own model of 'strategic capitalism' to explain the workings of the Japanese economy and the state's role within it. This model is described as a 'hybrid' or mix of the interaction of the public and private sectors, with the economy lead by the market-oriented private sector, but encouraged by the state to pursue 'public spirited' policies over the long term.¹⁵

Calder's test-bed for his model is the financial sector, often seen by commentators as crucial to the industrial growth of Japan and for the state's control of economic policy. Further discussion of Calder's arguments will be presented in a later section of this chapter, but at present it is sufficient to note that Calder offers convincing evidence of the increasing limits to the legal, technical and political power of the economic bureaucracy over private banks, a large section of manufacturing industry, and the Sôgôshôsha General Trading Companies. Calder attributes this declining power to a lack of resources, unity and long term vision on the part of the economic bureaucracy and also to the role of politicians in supporting private industry in its struggles with the bureaucracy. Added to these factors of bureaucratic conflict and the influential role of politicians and sections of industry, Calder places great importance upon the factor of external pressure (*gaiatsu*), and observes that it is often hard for the bureaucracy and politicians to take policy initiatives or to break policy deadlock without stimulus from the outside.¹⁶ As Calder states, the progress of economic liberalization combined with foreign pressure, 'undermines the position of the state industrial strategists still further.'¹⁷

Calder, then, while trying to articulate a new model of the Japanese economy, is also reemphasising the factors which limit the state's bureaucratic and political

¹⁵Kent E. Calder, *Strategic Capitalism*, p. 16.

¹⁶Kent E. Calder, 'Japanese foreign economic policy formation: explaining the reactive state', *World Politics*, vol. 40, no. 4, July 1988, p. 519.

¹⁷Kent E. Calder, *Strategic Capitalism*, p. 14.

control over the economy and which have appeared in the scholarship on industrial policy since the 1970's. Calder, like Patrick and Rosovsky, points to the factors of conflict within the economic bureaucracy, the role of the politicians, the role of big business and the role of outside pressures as crucial to the understanding of industrial policy and Japanese state's degree of control. If Calder and Samuels model of policy-making is accepted, this would point to a less than certain picture of the degree to which the Japanese state's government can control the components of economic power, and necessitates that the policy-making process be seen as one of adjustment between different policy-making actors.

Politicians versus bureaucrats

Calder's and Samuels' work, though, is not likely to end the debate on industrial policy and the links between the state's institutions and the management of the economy. Whilst Johnson has sought to defend his bureaucracy-centred view of the policy-making process from attacks by Calder and Samuels, his arguments have come under pressure from another quarter and from those political scientists who seek to give greater prominence to the politicians in policy-making. New research in the 1980's on the role of Japanese politicians--for so long the butt of policy-making studies' jokes--began to question the traditional view of this actor as totally beholden to the expertise of the bureaucracy and the financial influence of the *zaikai*. Muramatsu Michio as early as 1981 in his overview of the Japanese bureaucratic system had begun to argue that the policy-making process was becoming more pluralistic with its infiltration by interest groups other than the bureaucracy, and that the politicians were on an even if not superior standing to the bureaucrats in policy-making. This he ascribed to the LDP's dominance in the Diet and the need for the bureaucracy to cooperate if wished to pass the legislation that it proposed, the close links between the LDP and would-be politicians from the bureaucracy, and the increasing policy expertise of the LDP due to the formation by Diet members of unofficial *zoku*, or policy tribes, which took a close interest in

specific policy issues¹⁸ Further research on *zoku* and the official research committees of the LDP strengthened the view of politicians as confident of being able not only to scrutinise the legislation generated in by the bureaucracy but also to reject it and to propose their own.¹⁹

Other researchers have used Muramatsu's ideas but gone further and asserted confidently that it is the bureaucracy which is subservient to LDP politicians. Mark Ramseyer and France McCall Rosenbluth argue that the focus of Johnson and others on the bureaucracy as the key policy actor is incorrect because they have confused bureaucratic activism with bureaucratic autonomy, and that in fact the politicians determine the policy-making process due to their legislative veto in the Diet, and their control of bureaucrats' promotion and retirement to *amakudari* positions. That the politicians do not intervene more in the policy process is seen by Ramseyer and McCall Rosenbluth as evidence of the LDP having constructed the process to function in the interests of the LDP and the bureaucracy, so removing the need for intervention, and confirming the principal-agent relationship of their rational choice theory.²⁰ Given Ramseyers and McCall Rosenbluth's and other political scientists theories, then, it is necessary to see the politicians as one of the chief, if not the chief actors in the policy-making process.

¹⁸Muramatsu Michio, *Sengo Nihon no Kanryōsei*, Tōkyō, Tōyō Keizai Shinhōsha, 1981, pp. 152-64; Muramatsu Michio and Ellis S. Krauss, 'Bureaucrats and politicians in policymaking: the case of Japan', *The American Political Science Review*, vol. 78, no. 1, March 1984, p. 143; Muramatsu Michio and Ellis S. Krauss, 'The conservative policy line and the development of patterned pluralism', in Yamamura Kōzō and Yasuba Yasukichi (eds.), *The Political Economy of Japan Volume One: The Domestic Transformation*, Stanford, California: Stanford University Press, 1987, pp. 516-54.

¹⁹Satō Seizaburō and Matsuzaki Tetsuhisa, 'Jimintō chōchōki seiken ni kaibai', *Chūō Kōron*, November 1984, pp. 86-94; Inoguchi Takashi and Iwai Tomoaki, *Zoku Giin no Kenkyū: Jimintō Seiken o gyōjiru shuyakutachi*, Tōkyō, Nihon Keizai Shimbunsha, 1987, pp. 1-40; Lee W. Farnsworth, 'Clan politics and Japan's changing policy-making structure', *The World Economy: A Quarterly Journal on International Economic Affairs*, vol. 12, no. 2, June 1989, pp. 163-74; Nakano Minoru, *Nihon no Seijiryokugaku: Dare ga Seisaku o Kimeru ka*, Tōkyō, Nihon Hōsō Kyōkai Shuppan, 1993, pp. 85-108; Leonard J. Schoppa, 'Zoku power and LDP power: a case study of the zoku role in education policy', *The Journal of Japanese Studies*, vol. 17, no. 1, Winter 1991, pp. 79-106.

²⁰J. Mark Ramseyer and Frances McCall Rosenbluth, *Japan's Political Marketplace*, Cambridge, Massachusetts: Harvard University Press, 1993, pp. 100-04, 108-119.

Politicians versus bureaucrats versus big business

The above overview of the debate on policy-making in Japan shows that there are deep differences over who or what is the main actor in Japan and the extent of their influence over the economy. The view of 'Japan Inc.' and the state as comprising a tight-knit triangle of bureaucracy, politicians, and big business has been overturned by views emphasising the importance of big business as an independent actor, and the divergence between the interests of the state's bureaucratic and political actors. Subsequently this has been replaced by one centred on the state in the guise of the bureaucracy, which itself has subsequently been under attack from views stressing the importance of big business, external pressures, and politicians. Furthermore, one result of Ramseyer and McCall's application of rational choice theory to Japan and criticism of bureaucratic dominated theories of policy-making has been to spark an extraordinary counter-attack from Chalmers Johnson and what looks to be another long running debate on policy-making which may only serve to further entrench positions on all sides.²¹

But it is clear that there is a way out of this siege mentality, and that, just as in the case of the debate on hegemony, and despite the reluctance of some participants to acknowledge it, there is an essential unity in all the views outlined above on the policy-making process from which a usable theory of policy-making can be constructed. Arguably, whilst many scholars have striven to produce a more complex model of policy-making to counter the 'Japan Inc.' arguments and have succeeded in illuminating areas of the process that had not been studied before, many of them have fallen into the trap of allowing their arguments to become as extreme as the image of 'Japan Inc.' that they have attempted to destroy, and so in the end have undermined their own aim of achieving a more complex model of policy-making.

The irony of this is made even greater when it is noted that most of the scholars identified above end up identifying the same key actors, even though this is not

²¹Chalmers Johnson and E. B. Keehn, 'A disaster in the making: rational choice and Asian studies', *The National Interest*, no. 36, Summer 1994, pp. 14-22.

their intention. Thus, Ramseyer and McCall Rosenbluth, even though they concentrate on politicians as the principal in the policy-making process, accept that the role of the bureaucracy is crucial in drafting and implementing legislation and that the LDP could not make policy without it; in Ramseyer's and McCall's view the LDP is merely the final arbiter of policy, not the only policy actor and not the only one with power. Likewise, even though Johnson downplays the role of the politicians in the policy-making process, he is forced to admit that they often play a crucial role in adjudicating between problems of what has been termed 'inter jurisdictional conflict' (*nawabari arasoi*).²² If Johnson cannot write off the politicians altogether, then he also has to acknowledge the influence of big business. In general Johnson sees MITI as victorious in bureaucratic disputes with industry. For example, he illustrated MITI's power by quoting the example of its forcing Sumitomo Metals into line with production targets in 1965 by reducing supplies of coking coal to the company. But still his acknowledgment of the existence of such types of serious disputes between the principal economic actors is an important corrective to the 'Japan Inc.' type of view which sees the policy actors as indivisible. Moreover, it seems that in recent years and with his analysis of the MITI-NTT disputes over deregulation, Johnson has come to accept increasing limitations on MITI's power imposed by big business.²³ It is also clear that those such as Calder and Samuels who stress the influence of big business and foreign pressures are not looking to exclude the influence of the bureaucracy and politicians altogether, and their very concentration on disputes between them is recognition that they are all actors that count in the policy-making process. The final irony is that Abegglen's original idea of 'Japan Inc.' emphasised this very point, as it saw Japanese policy-making in terms of an interlocking directorate of competing interests from the bureaucracy, big business and the LDP which by institutionalized

²²I. T. M. Gow, 'Re-regulation and new industries in Japanese telecommunications', in Stephen Wilks and Maurice Wright (eds.), *The Promotion and Regulation of Industry in Japan*, London, Macmillan, 1991, p. 267.

²³Chalmers Johnson, 'MITI, MPT and the telecom wars', in Chalmers Johnson, Laura D' Andrea Tyson, and John Zysman (eds.), *Politics and Productivity*, New York, Ballinger, 1989, pp. 177-240.

negotiation and consultation managed to achieve a consensus on economic policy.²⁴

Global civilian power and Japanese policy-making

The obvious conclusion derived from this tendency in the scholarship to talk at cross-purposes whilst sharing an essential unity is that any model of policy-making in Japan and how its effect on the ability of the state to perform the role of a global civilian power needs to consider not just the state actors of the bureaucracy and politicians, but also big business and external domestic and international actors. As Reinhard Drifte notes: 'There is no one theory or model for explaining the role and interactions of the actors in Japan's political system.'²⁵ Instead an eclectic approach again is needed to explain policy-making in Japan. Arguably, the ability to take this type of approach is shown by the approach of scholars such as John Campbell who have tried to accommodate in their work both bureaucratic and political aspects of the policy-making process, and by Quansheng Zhao who has shown how bureaucratic, political and business interests have shaped informal mechanisms of policy-making in Japan's China policy.²⁶ This eclectic and comprehensive approach has been made even more pressing by the changes in the political system in Japan. Even before the collapse of the 1955 political system in 1992-3, T. J. Pempel had recognised the need for a less strict adherence to the bureaucratically dominated model of policy-making, and the actual collapse of the system has occasioned the need for further revision of other long-standing interpretations of it.²⁷ The end of the 1955 system interrupted the LDP's hold on power and may

²⁴Richard J. Samuels, *The Business of the Japanese State: Energy Markets in Comparative and Historical Perspective*, Ithaca, New York: Cornell University Press, 1987, p. 19.

²⁵Reinhard Drifte, *Japan's Foreign Policy in the 1990s: From Economic Superpower to What Power?*, London, Macmillan, 1996, p. 16.

²⁶John Creighton Campbell, 'Democracy and bureaucracy in Japan', in Ishida Takeshi and Ellis S. Krauss, (eds.), *Democracy in Japan*, Pittsburgh, Pennsylvania: University of Pittsburgh Press, 1989, pp. 113-37; Quansheng Zhao, *Japanese Policy Making: The Politics Behind Politics. Informal Mechanisms and the Making of China Policy*, Oxford, Oxford University Press, 1995, pp. 19-40.

²⁷T. J. Pempel, 'The unbundling of "Japan Inc.": the changing dynamics of Japanese policy formation', *The Journal of Japanese Studies*, vol. 13, no. 1, Winter 1987, pp. 271-306.

have weakened its hold also on the policy-making apparatus. Moreover, the reorganisation of the opposition is suggestive of its possibly having acquired or lost influence in policy-making. Muramatsu's arguments over the increasing pluralism of Japanese policy-making and its penetration by other interest groups means that when looking at policy-making some attention also has to be given to the opposition parties and non-government groups to test whether they have some input. Moreover, even the position of the bureaucracy within the policy-making system needs to be reevaluated after the fall of the 1955 system as it comes under attack for involvement in financial scandals, economic mismanagement, and is subject to pressure for reform in the 1990's.

Hence, a broad approach is required to the policy-making process in Japan and the advantages or obstacles it may pose to the control of economic power and functioning as a global civilian power. The following analysis of the power derived to the Japanese state from the components of economic power, and later on the case study in chapters four to six of Japan-North Korea economic and security relations, will take this broad approach. In terms of the main actors, this dissertation will look at the role of the state as the leader in economic security policy--defined as the bureaucracy and politicians, including the LDP and where possible the opposition parties. It will also consider the role of big business and foreign pressure. Big business, although essentially a non-state actor, has to be incorporated into any consideration of the economic power of the state as a facilitating or disadvantageous factor due to its penetration of the policy-making system of the Japanese state's government. Foreign pressure is also crucial, not just because of the increasing internationalisation of the Japanese economy, but also because when considering the security aspects of economic policy it is inevitable that these will be affected by foreign interests. None of these actors will be considered as automatically dominant over the others, but rather the relative importance of each will be revealed by the particular circumstances and issues with which the actors are involved and the interaction between them. In certain cases it may be that one actor can dominate due

to its particular expertise, so fitting the Johnson or Ramseyer and McCall models in their purest forms. In other cases there may be relatively high cooperation between the actors in a situation akin to Abeggelen's idea of 'Japan Inc.' These first two models may give a dynamic content to Japanese policy-making. Calder's model of external pressure may also at times prove the crucial factor in determining the policy-making process in Japan--lending it a highly reactive content. Finally, it is possible that all the competing policy actors may balance or inhibit each other producing what J. A. A. Stockwin has termed as 'immobilist' aspects in Japanese policy-making. In this situation the policy-making process may become log-jammed with the only way out being for external foreign pressure to build sufficiently to give politicians and bureaucrats the scope to respond with some kind of policy initiative.²⁸

PRODUCTION AND JAPANESE FDI

In the section on production in the previous chapter three types of TNCs--raw materials, manufacturing industry, and financial--were identified as playing an important international and possible security role through their global presence and FDI activities. The following section will outline the investment trends of all three types of Japanese TNC, and will focus discussion upon the significance of the direct and indirect types of power accrued by the first two types of TNCs. Discussion of the significance of the FDI activities of Japanese financial institutions will be carried out in the section of finance. Once the size and scope of economic power derived to Japan from FDI is evaluated, it will then be possible to apply this knowledge to the case study in chapter five of Japan-North Korea relations in order to test Japan's likely role as a global civilian power.

²⁸J. A. A. Stockwin, 'Dynamic and immobilist aspects of Japanese politics', in J. A. A. Stockwin (ed.), *Dynamic and Immobilist Politics in Japan*, London, Macmillan, 1988, p. 19.

Size and scope of Japanese FDI

Table 4: Japanese foreign direct investment 1951-1994 (US\$: million)

Fiscal year	Amount
1951-1964	790
1965-1971	3,646
1972	2,338
1973	3,493
1974	2,395
1975	3,280
1976	3,462
1977	2,806
1978	4,598
1979	4,995
1980	4,693
1981	8,906
1982	7,703
1983	8,145
1984	10,155
1985	12,217
1986	22,321
1987	33,364
1988	47,022
1989	67,500
1990	56,900
1991	41,600
1992	34,100
1993	36,000
1994	41,500

Sources: Koshiro Kazutoshi, 'Foreign direct investment and industrial relations: Japanese experience after the oil crisis', in Takamiya Susumu and Keith Thurley (eds.), *Japan's Emerging Multinationals: An International Comparison of Policies and Practices*, Tokyo, University of Tôkyô Press, 1985, p. 206; A. E. Safarian, *Multinational Enterprises and Public Policy: A Study of Industrial Countries*, Aldershot, Hampshire: Edward Elgar, 1993, p. 238; Ezra Vogel, 'Japan as number one in Asia', in Gerald L. Curtis (ed.), *The United States, Japan, and Asia*, New York and London, W. W. Norton and Company, 1994, p. 182; Organisation for Economic Cooperation and Development, *OECD Economic Surveys: Japan 1993-1994*, Paris, OECD, 1994, p. 21; Asahi Shimbun, *Asahi Shimbun Japan Almanac 1996*, Tôkyô, Asahi Shimbun Publishing Company, 1995, p. 85.

The sheer size of Japanese FDI since the mid-1980's has been impressive and suggests that Japanese corporations should have accumulated direct and indirect power. The financial journalist Bill Emmott estimates that by 1989 Japan had assumed the position of the number one provider of FDI, with FDI totalling US\$310,808 from 1951-1990.²⁹ Susan Strange points out the calculation of FDI levels is difficult as the figures generally only include actual capital exchanges across borders to a host state, and may exclude major investments made in the

²⁹Bill Emmott, *Japan's Global Reach: The Influences, Strategies and Weaknesses of Japan's Multinational Companies*, London, Century, 1992, pp. 5-13.

TNC's home state in fields such as technology research and development which are then later transferred but only at the face value of a technology's purchase price.³⁰ But even allowing for these difficulties in calculations, it is clear that Japanese FDI increased massively from the 1980's onwards. Table 4 demonstrates that in the twenty seven year period between 1951 and 1978, Japanese FDI totalled only US\$26.8 billion. From 1979 to 1985 Japanese FDI grew steadily in value to reach an annual level of US\$12.2 billion by 1985. In 1986, however, Japanese FDI nearly doubled to US\$22.3 billion annually, and continued to climb steeply, reaching an historical high of US\$67.5 billion in 1989. Following this, Japanese FDI has declined, but by 1993 still remained at an annual level of US\$36 billion, thus exceeding in one year the total levels of investment from 1951 to 1978.

There have also been changes in the sectoral composition of Japanese FDI. Table 5 shows that between 1951 and 1978 around 25 per cent of Japanese FDI was in resource development, around 35 per cent in manufacturing, and around 40 per cent in services. By 1985 the level of investment in resource development and manufacturing had fallen to 16 per cent and 30 per cent respectively, and the level of investment in services has risen to 54 per cent. The rise in investment in service industries is confirmed by 1994 OECD figures which show that between 1989 and 1993, around 25 per cent of Japanese FDI was in manufacturing and 75 per cent in non-manufacturing (comprising resource extraction and services), and it is probable that a large proportion of this can be accounted for by increases in investment in finance.

The geographical distribution of Japan's total FDI between 1951 and 1994 is shown in Table 6. It can be seen that North America and Europe together have accounted for around 63 per cent of total investment, and Asia around 16 per cent. But these figures disguise changes in investment patterns over time. A more detailed breakdown of figures for North America, Europe and Asia between 1951 and 1990 as given in Table 7, reveals that North America and Europe doubled their

³⁰Susan Strange, *States and Markets*, London, Pinter Publishers, 1994, p. 218.

annual shares of investment to 47.5 per cent and 19.8 per cent respectively by 1988, but that Asia's share had declined by around a half to 11.8 per cent of total FDI in the same period. In contrast to this, though, OECD figures show that Asia's share of investment had increased to around 19 per cent annually in 1992.

Table 5: The changing sectoral composition of Japanese foreign direct investment (percentage)

Year	Non-manufacturing	Manufacturing	Services
1951-78	23.6	34.2	42.2
1981	24.5	34.2	41.3
1985	16.1	30.2	53.7

Sources: Koshiro Kazutoshi, 'Foreign direct investment and industrial relations: Japanese experience after the oil crisis', in Takamiya Susumu and Keith Thurley (eds.), *Japan's Emerging Multinationals: An International Comparison of Policies and Practices*, Tokyo, University of Tôkyô Press, 1985, p. 207; Peter Dicken, 'The changing geography of Japanese foreign direct investment in manufacturing industry', in Jonathan Morris (ed.), *Japan and the Global Economy: Issues and Trends in the 1990's*, London, Routledge, 1991, p. 19.

Table 6: Cumulative totals of Japanese foreign direct investment by region 1951-1994.

Region	Percentage
North America	43.7
Europe	19.4
Asia	16.4
Latin America	11.9
Middle East	1.0
Africa	1.7
Oceania	5.9

Source: Asahi Shimbun, *Asahi Shimbun Japan Almanac 1996*, Tôkyô, Asahi Shimbun Publishing Company, 1995, p. 85.

Table 7: Regional distribution of Japanese foreign direct investment 1951-1990

Region	1951-78	1987	1988	1989	1990
North America	25.3	46.0	47.5	50.2	43.8
Europe	12.7	19.7	19.4	21.9	25.1
Asia	28.6	14.6	11.8	12.2	12.4
Latin America	16.4	14.4	13.7	7.8	6.4
Middle East	7.4	0.2	0.6	0.1	0.0
Africa	4.2	0.8	1.4	1.0	1.0
Oceania	5.6	4.2	5.7	6.8	7.3

Sources: Koshiro Kazutoshi, 'Foreign direct investment and industrial relations: Japanese experience after the oil crisis', in Takamiya Susumu and Keith Thurley (eds.), *Japan's Emerging Multinationals: An International Comparison of Policies and Practices*, Tokyo, University of Tôkyô Press, 1985, p. 206; Bela Balassa and Marcus Noland, *Japan in the World Economy*, Washington DC, Institute for International Economics, 1988, p. 119; Ezra Vogel, 'Japan as number one in Asia', in Gerald L. Curtis (ed.), *The United States, Japan, and Asia*, New York and London, W. W. Norton and Company, 1994, pp. 178-82.

Variations in the sectoral distribution of investment by geographical region also exist. Table 8 shows that between 1981 and 1985, services were the dominant form of Japanese investment in North America and Europe, occupying between 62 to 65 per cent and 63-72 per cent of the totals for their respective regions, with manufacturing investment occupying around 30 per cent of totals in North America and 20 per cent in Europe. In Asia the majority of investment between 1981 to 1985 was in resources and manufacturing, accounting for around 40 per cent each, with investment in services low at around 18 per cent to 27 per cent.

Table 8: Sectoral composition of Japanese foreign direct investment by region 1981 and 1985 (percentage)

Region	Resource-based	Manufacturing	Services
North America			
1981	8.6	29.1	62.3
1985	5.8	29.5	64.7
Europe			
1981	16.8	20.4	62.8
1985	8.2	19.8	72.0
Asia			
1981	41.7	40.4	17.9
1985	34.1	39.1	26.8
Latin America			
1981	19.9	41.6	38.5
1985	10.9	29.3	59.8
Middle East			
1981	11.0	85.7	3.3
1985	11.4	74.3	14.3
Africa			
1981	28.7	7.6	63.7
1985	19.7	6.4	73.9
Oceania			
1981	42.9	29.3	27.8
1985	35.6	25.0	39.4

Source: Peter Dicken, 'The changing geography of Japanese foreign direct investment in manufacturing industry', in Jonathan Morris (ed.), *Japan and the Global Economy: Issues and Trends in the 1990's*, London, Routledge, 1991, p. 22.

Other statistics illustrate the changing scope of Japan's FDI. Japan External Trade Organisation (JETRO) figures claimed that in 1986 around 4 per cent of total Japanese production was conducted overseas, and this figure has been forecast by the OECD to rise to 12 per cent by 1995-1996.³¹ The OECD also calculates that by

³¹Peter Dicken, 'The changing geography of Japanese foreign direct investment in manufacturing industry: a global perspective', in Jonathan Morris (ed.), *Japan and the Global Economy: Issues and Trends in the 1990's*, London, Routledge, 1991, p. 22; A. E. Safarian, *Multinational*

1993, 6.4 per cent of Japanese total manufacturing was carried out overseas.³² In 1990 Japanese corporations operating in the US were said to account for 1.5 per cent of that country's GDP, and Japanese corporations ran a total of 9,560 affiliates in the US and Canada in 1990; 2,998 in Europe in the same year; and 3,191 in ASEAN (Association of Southeast Asian Nations) in 1989. Emmott has estimated that there may be up to 300,000 Japanese managers operating enterprises abroad, and that these enterprises could employ between 2-8 million people. The OECD puts forward a more conservative figure of 1.1 million employees of Japanese firms abroad in 1993.³³ At the same time, though, it is necessary to put these figures in perspective by noting that in 1986 the US and Germany produced around 20 per cent of their total GNP overseas, and that in 1992 UK investment accounted for 2 per cent of US GDP, and that in 1992 US investment overseas accounted for 6.7 per cent of the UK's GDP and 0.7 per cent of Japan's GDP.³⁴

These comparisons help to moderate the picture of Japanese FDI, but it cannot be denied that it has increased by massive margins since the 1980's and that its influence is felt globally. Before analysing the possible power and security implications of Japanese FDI, though, it is important to consider what factors have lain behind the patterns of increases and changes, and the long term structural stability of investment patterns.

Until the 1980's, the chief characteristic of Japanese FDI was its use in the sourcing of cheap and diverse supplies of raw materials for domestic industry.³⁵ Much of this early investment was carried out by the general trading companies,

Enterprises and Public Policy: A Study of Industrial Countries, Aldershot, Hampshire: Edward Elgar, 1993, p. 271; Organization for Economic Cooperation and Development, *OECD Economic Surveys: Japan 1993-94*, Paris, OECD, 1994, p. 22.

³²Organization for Economic Cooperation and Development, *OECD Economic Surveys: Japan 1993-94*, p. 21.

³³Bill Emmott, *Japan's Global Reach*, pp. 5, 23; Organization for Economic Cooperation and Development, *OECD Economic Surveys: Japan 1993-94*, p. 21.

³⁴Peter Dicken, 'The changing geography of Japanese foreign direct investment', p. 22, A. E. Safarian, *Multinational Enterprises and Public Policy: A Study of Industrial Countries*, p. 271, Bill Emmott, *Japan's Global Reach*, p. 23.

³⁵T. J. Pempel, 'Japanese foreign economic policy', p. 751; Fred C. Bergsten, Thomas Horst and Theodore H. Moran, *American Multinationals and American Interests*, Washington DC, The Brookings Institute, 1978, p. 430.

and it is estimated that between 1950 and 1971 around 75 per cent of Japanese affiliates overseas had been established by the general trading companies.³⁶ But this period also saw the beginnings of a move towards manufacturing investment overseas in such industries as textiles and light assembly with the aim of overcoming rising wage costs in Japan and trade barriers to Japanese exports in countries such as Taiwan and South Korea. Sony had established overseas production facilities in Taiwan by 1967 and in Wales by 1974, and Japan's leading firms in synthetic fibres, textiles, electronics, and automobiles all had at least ten overseas subsidiaries by 1971.³⁷ The liberalization of foreign exchange controls in the early 1970's and the MOF's fear of a subsequent rise in the value of yen led the government to provide tax breaks for companies which invested capital overseas and so reduced pressure on the yen. The 1973 Oil Shock saw a temporary reimposition of restrictions on overseas investment, but the structural change in the Japanese economy brought about by higher energy prices and a move to higher value and technologically intensive industries resulted in the export of many of Japan's older and heavy polluting industries to Asia.³⁸

Further upward revaluations of the yen, and the emerging threat of protectionism in key European and US markets, meant that Japanese corporations increased their investment in manufacturing in these regions from the mid-1970's until the early 1980's. The major rise in the value of the yen against the dollar following the September 1985 Plaza Accord had the twin effects of raising production costs in Japan and making assets abroad comparatively cheap to acquire. This accounts for the huge surge in Japanese investment after 1985 and the achievement of the

³⁶Alexander K. Young, *The Sogoshosha: Japan's Multinational Trading Companies*, Boulder, Colorado, Westview Press, 1979, p. 210; Ozawa Teruo, *Multinationalism Japanese Style: The Political Economy of Outward Dependency*, Princeton, New Jersey: Princeton University Press, 1979.

³⁷Peter Dicken, 'The changing geography of Japanese foreign direct investment', p. 33, Fred C. Bergsten, *American Multinationals*, p. 432.

³⁸David Bailey, George Harte and Roger Sugden, *Transnationals and Governments: Recent Policies in Japan, France, Germany, the United States and Britain*, London, Routledge, 1984, p. 14; A. E. Safarian, *Multinational Enterprises and Public Policy*, p. 273; Fred C. Bergsten, *American Multinationals*, p. 433; Peter Dicken, 'The changing geography of Japanese foreign direct investment', p. 33.

US\$67.5 billion high of FDI in 1989. The decline of Japanese FDI in the 1990's can be explained by the recession and credit squeeze in Japan that set in after 1990. But the continued relatively high levels of FDI and rising investment in manufacturing in Asia can be explained by the persistence of a high yen (*endaka*) until mid-1996 and the need for Japanese corporations to relocate to low wage production sites. In turn, this has caused fears of the 'hollowing out' (*kûddôka*) of the Japanese economy in the 1990's as manufacturing industry is transferred offshore.

To summarise, it can be seen that the FDI strategy of Japanese manufacturing TNCs in the 1980's and 1990's has been similar to that of their US and European counterparts in the 1960's and 1970's. Japanese corporations have sought production advantages, first in being able to circumvent trade barriers, and, second, in being able to secure low cost manufacturing bases. The motivations behind Japanese corporations investment in the financial sector will be looked at in the section on finance.

Direct economic power from Japanese FDI

Japanese corporations clearly have come to possess a great weight and presence in production through the global expansion of their FDI in recent years. But the important question is whether or not this raw power has been converted into forms of direct or indirect power which are capable of serving the interests of the Japanese state's government and of constituting part of security policy. As has been discussed in the section on production in the previous chapter, the activities of US TNCs have often been viewed as increasing the direct and indirect power of their home state. With regard to Japan, some commentators have made the link between TNC activities and the power of the home state. Huber and Nester, for instance, tend to see Japanese FDI behaviour as the outward projection of the Japan's domestic economic system and thus capable of being used in the interests of the Japanese state. In theoretical terms, the FDI of Japanese corporations is seen to

provide the government of the Japanese state with direct power as well as indirect power.

However, there is not necessarily a clear cut connection between levels of FDI and the international power of the Japanese state. Application to this problem of the factors which have been seen to limit the control of the state with regard to domestic industrial policy highlights the probable limits of state power over the international activities of Japanese corporations as well. There may be no necessary link between the international direct power of the state and the size of Japanese FDI as the likes of Huber and Nester so confidently posit. Examination of the domestic economic component of production may reveal that there is not such a strong connection between it and the international production behaviour of Japanese corporations, and that FDI is not simply an outward expression of the direct power of the Japanese state found on the domestic level. Indeed, it may be the case that the Japanese state derives little power through production on the domestic level, which would undermine further the foundations of the argument which sees Japanese industrial policy and state intervention as also meaning control and direct power for the Japanese state in the international sphere. The next step, then, is to try to elucidate the actual links between the domestic and international activities of Japanese firms and the limiting effects upon the Japanese state's control and direct power. In order to do so, it is first essential to lay out what has been seen as the typical model of state control of production at the domestic level and to show its limitations and often occasional irrelevance with regard to the international activities of Japanese corporations.

The traditional model of Japanese domestic production derives from analysis of the period from the 1950's to the 1980's, and tends to incorporate the assumption that policy on production is generated by the economic bureaucracy consisting of MITI, the MOF, the BOJ, and the EPA. However, the BOJ has usually been seen as dominated by the MOF, and the EPA by MITI. These ministries were thought to

interact with major industrial producers, represented by the six city bank-centred *neo-zaibatsu* of Mitsubishi, Mitsui, Sumitomo, Fuyō, Sanwa and Dai-Ichi Kangyō, and their associated trust banks, sea and marine insurance companies, life insurance companies, and general trading companies.

Control of these industrial conglomerates and production was exerted by the bureaucracy using a variety of types of formal and informal methods, most of which have been mentioned already in the earlier description of the debate on industrial policy. The most effective form of control was viewed as the manipulation by MITI and the MOF of the financial flows to the large corporations. The *zaibatsu* structure of mutual shareholding in place since the 1950's, with up to 60 per cent of a company's stock held by other companies in the same industrial group, benefited member companies by insulating them from the interests of private shareholders. But this system also meant that the means of 'direct financing' for companies--the use of the money markets and the sale of bonds and equities--were underdeveloped, and that companies became highly reliant upon their group member banks for the provision of low interest loans. This produced the phenomenon of 'overborrowing' whereby an average 70 per cent of the capital of member companies consisted of loans from their group member banks. The phenomenon of 'overborrowing' was matched by that of 'overloan' as the city banks lent out a high proportion of their capital to group members.³⁹

Whilst this system of financing reduced the interference of private shareholders in the management plans of the industrial groups, it was seen also to place the groups under the control of the economic bureaucracy and, in turn, under the control of the state. This was because much of the capital to finance the 'overborrowing' and 'overloans' of the groups companies and banks was ultimately procured either from government financial institutions or from private financial institutions under government influence. The twelve city banks secured their funds from three main sources: firstly from their own depositors; secondly,

³⁹Thomas Huber, *Strategic Economy*, pp. 53-4.

from the sixty four regional banks, which, in turn obtained a high level of funds from the state via the BOJ; and, thirdly from the JDB which is financed by the MOF's Postal Savings System (PPS).

Most of these sources of finance have been subject to varying degrees of control by the economic bureaucracy. The MOF through the BOJ has legal powers over bank licensing, reserve rates and interest rates, and up until its abolition in 1981 was able to use the informal tool of 'window guidance' (*madoguchi shidô*) to set the interest rates of the city banks.⁴⁰ The MOF also administers PPS funds, which are then channelled to the private sector by the JDB under the direction of MITI. MITI also directs other credit creating institutions for industry such as the Export-Import Bank of Japan (founded 1950), the Medium and Small Enterprises Credit Fund (1953) and the Central Bank of Industrial Cooperatives (1956).⁴¹ The control of these financial institutions has been described as not just important for determining the size and terms of industrial finance, but also for influencing its strategic direction--the government's dispensation of funds from its financial institutions providing important indications of which sectors it favours, so influencing the investment behaviour of private firms.

As discussed previously, the economic bureaucracy was also seen to have had control over the domestic economy and its links to the international economy through the 1949 Foreign Exchange and Foreign Trade Control Law (FEFTCL). The FEFTCL was instituted under SCAP (Supreme Command Allied Powers) as a measure designed to protect Japan's balance of payments over the short term in the immediate post-war period. But the FEFTCL came to be used as a means of protecting Japanese domestic industry from foreign investment and competition and of controlling the outward investment of Japanese companies. The FEFTCL in its original form prohibited all foreign exchange transactions unless carried out with

⁴⁰James Horne, *Japan's Financial Markets: Conflict and Consensus in Policymaking*, Sydney, London and Boston: George, Allen and Unwin, 1985, p. 26; William R. Nester, *Japanese Industrial Targeting: The Noemercantilist Path to Economic Superpower*, London, Macmillan, 1991, p. 212.

⁴¹Chalmers Johnson, 'MITI and Japanese international economic policy', p. 256.

MOF and state approval, and demanded that all foreign exchange gained by Japanese corporations from foreign trade should be held in special accounts designated or approved by the BOJ. The administration of the FEFTCL passed to MITI's International Trade Bureau (later International Policy Trade Bureau) in 1952. The provisions of the law became less stringent over time. In 1952 foreign exchange banks were authorised limited holdings of foreign currency. In 1966 the same right was passed to the general trading companies, and in 1978 restrictions on the type of institutions able to hold foreign exchange were lifted. The amounts of foreign exchange that could be held with BOJ approval were also liberalised: rising from US\$40,000 to US\$1,100,000 between 1964 and 1970, and in 1971 restrictions on the amount that could be held were removed. In 1978 the BOJ approval system was replaced by a notification system.⁴²

MITI's control of foreign exchange clearly gave the state a measure of direct power over the commercial and investment activities of Japanese corporations, and it is no surprise that MITI tried to counter the effects on its power of liberalisation of the FEFTCL. Johnson chronicles in some detail MITI's attempts between 1962 and 1963 to introduce the Special Promotion Law for the Promotion of Designated Industries (*Tokutei Sangyô Shinkô Rinji Sochi Hôan*, or *Tokushinhô*), which would have given MITI new powers over industrial financing and made commercial banks give special preference for financing to industries designated by MITI. The plans of MITI were eventually defeated by a coalition of interests from the banking sector, the LDP and the MOF.⁴³

Moreover, liberalisation of the state's financial controls continued until the introduction of a revised FEFTCL in 1980. The revised law of 1980 called for notification of the BOJ for external investments of over ¥3 million (changed to ¥10 million in 1984), and gave the ministry twenty days to decide approval of the transaction. The law also included provisions on the prevention of transactions if

⁴²Kent E. Calder, *Strategic Capitalism*, p. 33; A. E. Safarian, *Multinational Enterprises and Public Policy*, p. 272.

⁴³Chalmers Johnson, *MITI and the Japanese Miracle*, pp. 255-67; Kent E. Calder, *Strategic Capitalism*, p. 63.

they were deemed harmful to the Japanese economy or the stability of the Japanese and international money markets. Perhaps most notable for the discussion about security and production, though, was that foreign exchange transactions could be stopped if, 'they might disturb the faithful performance of treaties or other international agreements, or imperil the international peace and security, or disturb the maintenance of public order.' There were also some provisions in the law that stated the need for prior approval with regard to investments in areas like South Africa. The Japanese bureaucracy and state could be seen then as having retained some form of control over FDI and the legal ability to restrict FDI in the interests of security. But the wording of the provision is somewhat vague and there is little evidence so far that the state has actually tried to manipulate the element of production in this way. Safarian points out that from the introduction of the law until 1983 he could not find one instance of the Japanese government's refusal of a formal application for investment.⁴⁴

Alongside the control of industrial finance the economic bureaucracy was also seen to have had influence over production by a mix of instruction and guidance. Various exemptions from the 1947 Anti-Monopoly Law have provided MITI with the right to organise cartels in those industries it designates as in need of rationalization and restructuring. Cartels are usually temporary bodies initiated by MITI to coordinate activities within a single industry. MITI is also known to coordinate activities across groups of industries by regular meetings between its officials and the heads of major corporations represented on industrial associations.⁴⁵

It has already been mentioned how the progress of liberalisation from the 1960's onwards led MITI to switch to the use of informal tools of control. Some commentators have claimed that, despite its intangible nature, it is administrative guidance which has given MITI and the other economic ministries the firmest

⁴⁴A. E. Safarian, *Multinational Enterprises and Public Policy*, 274.

⁴⁵Thomas Huber, *Strategic Economy*, p. 41.

control over production. Administrative guidance can be defined as, 'administrative actions taken by administrative organs, although without legal force, that are intended to influence specific actions of other parties in order to reach an administrative aim.'⁴⁶ In the case of MITI, Johnson identified its administrative guidance as the ability to recommend (*kankoku*), request (*yôsei*), advise (*jogen*) and to mediate (*chûkai*), and also noted the advantages of these methods as immediate and free of legal entanglements.⁴⁷ Johnson and others have also pointed to the importance of the practice of *amakudari* (literally: descent from heaven), in which officials from the economic bureaucracy move into top positions in the companies which they often formerly supervised, so strengthening the links between the bureaucracy and business. Johnson notes that up to 1979 three out of five of the presidents of the Keidanren (Federation of Economic Organisations) were former bureaucrats, and James Horne has shown that between 1970 and 1980, MOF placed 192 of its former career and non-career officials in private financial institutions.⁴⁸

The MOF has generally been seen as the most powerful ministry politically due to its close links with the LDP. In 1980 there were twenty five former MOF officials in the House of Representatives and twenty one of these were LDP members. In addition, four ex-MOF officials—Ikeda Hayato, Fukuda Takeo, Ôhira Masayoshi, and Miyazawa Kiichi—have served as prime minister in the post-war period. By contrast, MITI is usually seen as weak politically, with less representation in the Diet and providing only one prime minister in the post-war period: Kishi Nobusuke. But MITI's lack of political influence perhaps is made up for by its status as one of the top ministerial jobs that it is important for prime

⁴⁶Shiono Hiroshi, 'Administrative guidance', in Tsuji Kiyooki (ed.), *Public Administration in Japan*, Tôkyô, University of Tôkyô Press, 1984, p. 204.

⁴⁷Chalmers Johnson, 'MITI and Japanese international economic policy', p. 254.

⁴⁸Chalmers Johnson, 'MITI and Japanese international economic policy', p. 258; *MITI and the Japanese Miracle*, p. 71; James Horne, *Japan's Financial Markets*, p. 206.

ministerial candidates to have held; the current prime minister, Hashimoto Ryūtarō, being an example of this.⁴⁹

The economic bureaucracy's influence over industrial finance, combined with its powers of guidance and its networks of human and political relations, should argue for a large measure of state control over Japanese corporations and production on the domestic level, and that this would be carried over to control on the international level. Certainly, as the case of Sumitomo Metals illustrated, in the past the state's economic bureaucracy has had the strength to exercise very direct power over production. In the contemporary period there is also evidence of state power, as in the break-up by MITI in 1989 of a beef cartel formed without its permission and deemed as against the public interest.⁵⁰ However, whilst the model outlined above indicates a range of controls at the disposal of the state and possibly greater state control in the case of Japan than of other industrialized countries, at the same time the faults of the model need to be recognised and the importance needs to be emphasised of the limiting factors of bureaucratic conflict and the role of politicians, the refusal of big business to be corralled into going along with the Japanese state's wishes, and foreign pressures for liberalisation.

An obvious point that needs to be made concerning bureaucratic conflict is that the range of actors that have been considered as within the policy-making system has usually been too small and needs to be expanded. The traditional emphasis upon MITI, the MOF, the BOJ and EPA excludes other ministerial actors that have been involved in control of the economy, most notably the Ministry of Post and Telecommunications (MPT), the Ministry of Transport (MOT), the Ministry of Construction (MOC), and the Ministry of Agriculture Forestry and Fisheries (MAFF). The four economic ministries remain the core of the policy-making process, but the possible input of the other ministries must be acknowledged and requires further study.

⁴⁹Kent E. Calder, *Strategic Capitalism*, p. 76; Chalmers Johnson, 'MITI and Japanese international economic policy', p. 258.

⁵⁰Thomas Huber, *Strategic Economy*, pp. 40-1.

Bureaucratic conflict can be seen on several levels. Conflict within specific ministries has occurred as in the case of the division between MITI's International Trade Bureau and its other bureaus over the pace of liberalisation; the former in the past favouring a more open policy, and the latter favouring concentration on domestic industry.⁵¹ Conflict between elements of the economic bureaucracy usually regarded as allies is represented by the disputes between the MOF and the BOJ over monetary policy in the 1980's.⁵² Furthermore, the loosening of the ties between allied ministries may be marked by the reemergence of the EPA in the 1970's as a relatively independent body after a long period of domination by MITI.⁵³

The issues of differing policy priorities and interjurisdictional disputes have already been touched upon in an earlier section, and these types of internal conflicts between the state's administrative institutions limit its ability to manage the economy. As Patrick and Rosovsky pointed out, MITI often has preferred to concentrate on industrial production, the BOJ on price stability, the MOF on aggregate demand and the EPA on stable growth.⁵⁴ These divergent aims have resulted in clashes over policy and criticism by one ministry of another, as with MITI's more recent complaints about the MOF's slow liberalisation of finance and overprotectedness of the banking sector.⁵⁵ Interjurisdictional disputes have hampered attempts to produce a coordinated economic policy. The failure to establish the International Cooperation Agency in 1974, which was designed to coordinate Japan's fragmented aid policy, was due conflicts in authority between MITI, the MOF, and the organisation's original sponsor, the Ministry of Foreign Affairs (MOFA). All of the ministries have fought to protect their own spheres of influence from encroachment by competitors. The MOF fought off successfully

⁵¹Chalmers Johnson, 'MITI and Japanese international economic policy', p. 268.

⁵²James Horne, *Japan's Financial Markets*, p. 34.

⁵³Kent E. Calder, *Strategic Capitalism*, p. 56.

⁵⁴Hugh Patrick and Patrick Rosovsky, 'Japan's economic performance: an overview,' p. 49.

⁵⁵Leon Hollerman, *Japan Disincorporated: The Economic Liberalization Process*, Stanford, California: Hoover Institution Press, 1988, p. 18.

attempts in 1955, 1963 and 1970 to remove the compilation of the budget from its control, and in 1996 is still engaged in a struggle to prevent the breakup of its powers of regulation. MITI and the MOFA formed a temporary alliance the 1970's to defeat plans for a new ministry for small and medium sized enterprises, and MITI's *Tokushinhô* strategy was defeated by an MOF-FTC (Fair Trade Commission) coalition. In this instance, MOF was concerned about the erosion of its power over finance, and the FTC about contraventions of the Anti-Monopoly Law.⁵⁶

In all of these conflicts LDP politicians played an important role in forging a compromise, or tipping the balance of power in favour of one ministry or another. Thus, as states in the introductory section to this chapter, the role of politicians needs to be added as another factor complicating the picture of the state's control of the economy. Calder points out a number of cases in which the input of politicians in economic policy-making has proved crucial, and shows that the attempts of the bureaucracy to influence corporations through flows of finance have been frustrated by an alliance between banks and the LDP.⁵⁷ The influence of the *zaikai* financial world in combination with the LDP is, then, another variable in moderating the extent of state control over production.

It is also possible to view new financial strength by Japanese corporations and pressures for economic liberalisation as further weakening the influence over it of the state's bureaucracy. The traditional model of control of production saw MITI and the MOF as able to exert influence through the dependence of corporations on finance often procured from government run or government regulated institutions. However, this model may no longer apply due to the rise in liquidity of Japanese corporations since the 1970's and the diversification of sources of finance available

⁵⁶Chalmers Johnson, *MITI and the Japanese Miracle*, pp. 74-5, 258.

⁵⁷Kent E. Calder, *Strategic Capitalism*, p. 140.

to them. In part, these changes have been brought about by rising profits and the internationalization of the Japanese economy.⁵⁸

The 1970's witnessed the gradual disappearance of the phenomenon of 'overloan'. In 1970, 8.7 per cent of city bank deposits consisted of BOJ loans, but by 1980 this ratio had fallen to 2.1 per cent, and by 1990 only 0.8 per cent of total bank liabilities were accounted for by BOJ loans.⁵⁹ This also resulted in a subsequent reduction in the 'overborrowing' by large corporations. By 1983, Japanese corporations had reduced their levels of total capital procurement from bank loans to 29.2 per cent, compared with 74 per cent in 1974. Japanese corporations began to switch to the procurement of finance from bonds and stock convertible issues. In 1974 bond and convertible stock issues accounted for only 8 per cent and 14 per cent respectively of capital raised by Japanese companies. But by 1985, these figures had risen to 32.1 per cent and 38.7 per cent. In 1985, 36.3 per cent of funds were raised by equities, around double the level of the 1970's. Companies also began to increase the levels of capital procured abroad. In the early 1970's, 1.7 per cent of capital was raised in the Euromarkets, but this increased to 19.6 per cent by the late 1970's, and according to Nester, by 1983 nearly 43 per cent of capital was raised abroad.⁶⁰ Part of this increase in liquidity can be accounted for by the 'zaitech' profits of large corporations. By the mid-1980's companies such as Matsushita and Toyota were often felt to act more like banks as they made greater profits from financial deals than from their manufacturing activities.

The reduced dependence of industry and the city banks upon government finance is also apparent in the changing direction of JDB loans in this period. In the 1950's and 1960's a large proportion of JDB loans were made to industry, but by the late 1970's JDB loans were being used increasingly to satisfy the 'clientism'

⁵⁸J. A. A. Stockwin, *Japan: Divided Politics in a Growth Economy*, London, Weidenfeld and Nicolson, 1982, p. 138.

⁵⁹James Horne, *Japan's Financial Markets*, p. 36; Kent E. Calder, *Strategic Capitalism*, p.214.

⁶⁰William R. Nester, *Japanese Industrial Targeting*, p. 212; Kent E. Calder, *Strategic Capitalism*, p. 214.

demands of groups important to the LDP's political strategy. In 1976 only 10 per cent of JDB loans were channelled directly to industry, whereas the remaining 90 per cent were channelled to infrastructure related projects. Added to this, between 1965 and 1990 62.8 per cent of government credit went to industries considered to be in decline, and in 1991 the largest shares of the government's PPS loans distributed through the Fiscal Investment Loan Plan (FILP) went to housing, small businesses and public companies.⁶¹ The Export-Import Bank and the JDB often thought to be crucial in influencing the flow of funds to industry, by this time were only receiving 8.2 per cent of government finance. Finally, this period also saw a change in the balance of financial power between the government and the city banks. Calder stresses that the explosion of the government's debt after 1973 meant that it was forced to negotiate bond obligations more on the terms of the banks.⁶² This change, in combination with foreign pressure for liberalisation, gave the city banks greater leverage in securing more market-oriented liquidity.

The weakening control of finance also needs to be set alongside the reminder that large areas of capital procurement by private industry always has been beyond the effective control of the bureaucracy and state. The non-bank institutions of the industrial groups, and, in particular, the life insurance companies, hold large deposits that can be used to provide their group member companies with finance. The independent and politically strong NTT corporation--the world's largest corporation in terms of market value in 1995--has long been able to issue its own bonds and has resisted successfully attempts by the bureaucracy to break up its business. Since the 1950's, the general trading companies have been able to act as credit creating institutions by extending credit, loan guarantees, and venture capital. After 1966, the general trading companies have been able to handle foreign

⁶¹Kent E. Calder, *Strategic Capitalism*, p. 105; Organization for Economic Cooperation and Development, *OECD Economic Surveys: Japan 1993-94*, p. 55.

⁶²Kent E. Calder, *Strategic Capitalism*, p. 214.

exchange and to act as promoters of FDI capital beyond the traditional purview of the state.⁶³

The issue of foreign exchange draws attention to a further area of reduced government influence over production and FDI. Calder argues that the FEFTCL may never have been as effective as some commentators claimed in determining the investment patterns of Japanese companies. The potential for control that the original law offered to the state is not in doubt, but Calder points out that until 1956 the MITI's International Trade Bureau, which administered foreign exchange, was not even headed by officials from MITI, but by officials with expertise in this field from the MOFA who traditionally took a more liberal line towards trade and investment.⁶⁴ Control of the International Trade Bureau passed to MITI officials in 1956. But by 1964, the FEFTCL regime and MITI's control of it had already begun to weaken under the pressures of liberalisation. Hence, the period of effective control of foreign exchange by MITI in the service of its industrial policy may only have been for about eight years. The 1981 reforms of the FEFTCL, as already described, continued to reserve the right for the bureaucracy to halt FDI transactions if deemed harmful to the stability of the economy and state's security. The state's bureaucracy may then still possess latent power over FDI if it seeks to exercise it. But the general impression is one of declining control on a day-to-day basis, and practical difficulties in the manipulation of finance and FDI in the interests of the state's economic bureaucracy.

As well as limitations on the state's formal controls, there also seem to be limitations on its informal controls over production. Ministries turned to administrative guidance to compensate for the decline of their formal powers in the 1970's, but there are apparent shortcomings to the practice of *amakudari*. Horne's figures for *amakudari* of MOF officials show that even though 192 of them entered private banks between 1970 and 1980, a majority of them entered credit

⁶³Kent E. Calder, *Strategic Capitalism*, pp. 95, 144, 146; Alexander Young, *The Sogoshosha*, pp. 58-72.

⁶⁴Kent E. Calder, *Strategic Capitalism*, p. 33.

associations (151), mutual banks (28) and regional banks (11), but only two of them entered city banks or long term credit banks. Most city banks were said to have been reluctant to employ the former officials because they did not want the encumbrance of MOF officials in running the bank.⁶⁵ In 1995, none of the six senior MOF officials reported to have followed the *amakudari* path entered a city bank.⁶⁶ The general trading companies are also known to have employed few former officials from the economic bureaucracy and to be relatively free of LDP influence.⁶⁷ In addition, *Amakudari* does not seem to have been effective with regard to major manufacturing companies outside the major industrial groupings, allowing companies such as Isuzu to ignore MITI's displeasure over the initiation of joint operations with General Motors in the 1970's.

The loosening control of the state over domestic production implies reduced control over the international activities of Japanese corporations. Moreover, Japanese corporations and sectors of the Japanese economy can be identified which have never been subject to control by the state bureaucracy in their international investment activities. The general trading companies have usually moved in harmony with state interests but have already been identified as prominent international actors relatively free of state control. Calder stresses that government influence has also been excluded from many of the most dynamic and internationally active of Japanese corporate actors such as the automobile and electronics industries.⁶⁸ In the 1960's and 1970's, the Japanese state's share of investment in electronics was only between 0.8 and 2.5 per cent, and many electronics and automobile have always been free of the ties of government finance.⁶⁹ In addition to this, many of the corporations in these sectors have taken a combative attitude towards state interference over planning and investment. MITI's

⁶⁵James Horne, *Japan's Financial Markets*, p. 206.

⁶⁶*Asahi Shimbun*, 28 March, 1996, p. 3.

⁶⁷Kent E. Calder, *Strategic Capitalism*, p. 146.

⁶⁸Kent E. Calder, *Strategic Capitalism*, p. 107.

⁶⁹Daniel I. Okimoto, *Between MITI and the Market: Japanese Industrial Policy for High Technology*, Stanford, California: Stanford University Press, 1989, p. 77.

failed attempts to merge elements of the automobile industry are well documented, and its initial failure to recognise the potential of Sony's and to prevent its purchase of transistor technology from overseas is legendary.⁷⁰ Thus, it is apparent that many of the corporations which have been responsible for the expansion of Japan's FDI and the globalisation of its economy in the 1980's are those very corporations which are most likely to be distanced from government control. If it can be assumed that Sony, Matsushita, Sanyô, Sharp, Toyota, Nissan and Honda are not readily amenable to state control then this greatly limits the direct power of the Japanese state through production, and casts doubt upon the model of the Japanese economy which sees domestic control as duplicated on the international level. It may be that the progression of the internationalisation of the Japanese economy has now eroded the control of the Japanese bureaucracy and subsequently the state over production to the point where its direct power in this area has become less effective.

If much of the structure of Japanese bureaucratic state control over production has weakened, then the only element left to tie the international activities of Japanese TNCs to the direct power of the state is the type of arguments put forward by Strange, Waltz and Gilpin which assume that the chief executives of TNCs in the final instance remain loyal to their native state. This factor is unmeasurable, and the argument could be made that in the case of Japan management structures maintain the loyalty of TNC executives to their home country. The persuasiveness of this type of cultural particularistic argument is perhaps, though, undermined by recognition of the fact that since the late 1980's many Japanese corporations have been forced by economic necessity, just like their Western counterparts, to relocate their manufacturing activities abroad even at a cost to their home country's economy. Management sense dictates that Japanese TNCs need to operate independently of state control when economic survival is at stake.

The application of the limits of state, and in this case especially bureaucratic, control discovered in the debate on industrial policy reveals, therefore, similar

⁷⁰James Horne, 'The economy and the political system', in J. A. A. Stockwin (ed.), *Dynamic and Immobilist Politics in Japan*, London, Macmillan, 1988, p. 144.

limits to state control over the economic power of production. The observation of many has been that the massive increases of Japanese FDI since the late 1970's has provided the Japanese state--represented by the bureaucracy--which is thought to be in control of the domestic economy, the same degree of control over the external economic activities of Japanese firms. Indeed, based on a 1950's or 1960's model of the Japanese economy this would seem to be a fair observation. However, examination of the role of bureaucratic conflict, and the influence of politicians, big business and foreign pressures for liberalisation makes for hesitation in concluding that Japan's increased FDI can be converted into direct economic power for the state. On the contrary, the picture is one of weakening and disputed state control in the areas of economic activity thought traditionally to be under its control, and of large and important areas of the domestic economy and its links to the international economy beyond close state control. Caution is then needed when trying to decide how much direct power the Japanese state has derived from the increases of investment by Japanese corporations. The Japanese state, of course, always reserves the right to cut the flow of FDI in cases of a major threat to security, as laid down in the revised 1981 FEFTCL, but this is a drastic measure and suggests a restricted use of production power in the service of the Japanese state's direct power and security policy. All this suggests that the Japanese state when acting as a global civilian power would be able to draw relatively little direct power from the component of production, and instead that when examining the case of Japan-North Korea security relations in chapter five it is necessary to look mainly at Japan's indirect power from FDI.

Indirect power and security from Japanese FDI

The most significant form of power accrued to Japan due to the expansion of Japanese investment is likely to be indirect power. The sheer size and strategic importance of Japanese FDI to the economies of certain regions and industries in parts of the US, Europe and Asia are likely to have an indirect power impact upon

the recipient states. The presence of TNCs can often bring about a transformation or even substitution of the host states production practices. Thus, for example, the inward investment of Japanese corporations in the UK since the 1980's has brought about a change in the domestic automobile industry's supplier networks and union practices. This so-called 'Japanisation' of British industry is arguably the real power impact of Japanese investment in Britain. The Japanese TNCs' own direct power was revealed by the ability to negotiate the best terms for their new operations with regional governments by the offer of vital investment. But beyond this Japanese firms now have secured indirect power by the spread and gradual acceptance of their production practices which have often been accepted in a modified form as the 'rules of the game' in the automobile industry. The integrative effects of this represent indirect power for the firms and, to a lesser extent, for the Japanese state, which is seen to embody these values and from which the firms are seen originally to operate from. In the case of the UK and Japan, security is not an issue, but it is possible to see how Japanese FDI in other states which are less politically stable may have integrative effects which can alleviate sources of economic and cultural conflict; though this is a fine balance, as shown by the anti-Japanese riots in Southeast Asia in 1974, which were a reaction to what was seen as alien and exploitative Japanese FDI.

Therefore, when Japanese FDI is considered in Europe, North America, Asia and other regions its indirect power effects, although not easily measured in the FDI statistics or easily shaped consciously in the service of the state, may have the greatest implications for security policy and Japan's capacity to act as a global civilian power. Its integrative effects (or in the case of France in the early 1990's, its alienating and xenophobic effects) can have important results for security and diplomatic relations over the long term. This type of indirect economic power, whilst it brings security benefits to the government and population of the Japanese state, is by definition hard for the state to manipulate actively for its security ends, and requires that the state rely on the economic strength and cooperation of non-

state actors such as TNCs and the Sôgôshôsha. But based on the knowledge of the potential security benefits of indirect economic power, the most important conclusion for security policy-makers is that rather than trying to manipulate FDI directly in the interests of the state, the most effective policy is to foster the spread of interdependency by further promoting the expansion of FDI free of state intervention and by creating the political conditions to allow FDI to flow. Hence, this makes it clear that when examining in chapter five the case of Japan's economic power with regard to North Korea, it will be important to place particular emphasis on judging how far the Japanese state has shown a willingness to cooperate with private business in order to allow indirect power in production to work for Japan's security interests.

JAPANESE FINANCIAL POWER

Size and scope of Japanese financial resources

In the field of international politics the size and weight of Japan's capital outflows have been viewed as delivering power, both direct and indirect, to the Japanese state. This makes it imperative to outline the size and scope of Japanese financial power so that later on Japan's ability to influence North Korean security behaviour through this economic component can be assessed correctly.

Since the 1980's Japan's net external assets have risen dramatically. In 1981, net external assets stood at US\$11.5 billion, but by 1989 this figure had risen to US\$293.2, giving Japan the position of the number one creditor in the world. By 1994 Japan's external assets had risen still further to US\$689 billion.⁷¹ In 1990, Japanese banks are estimated to have accounted for 34 percent total assets and 34 per cent of total liabilities of the Bank for International Settlements (BIS).⁷² Japanese bank assets in this period were concentrated especially in the developed

⁷¹Asahi Shimbun, *The Japan Almanac 1996*, Tôkyô, Asahi Shimbunsha, 1995, p. 105.

⁷²Hamada Kôichi, 'Japan's prospective role in the international monetary regime', in Craig G. Garby and Mary Brown Bullock (eds.), *Japan: A New Kind of Superpower?*, Baltimore and London: The Johns Hopkins University Press, 1994, p. 143.

nations. For instance, around 12 per cent of total US banking assets were held by Japanese banks in 1990.⁷³ The burgeoning presence of the Japanese banks' activities was also shown by the buying sprees that they engaged in during the 1980's in the financial markets of the developed nations. In 1988, Japanese banks purchased US\$36 billion and US\$46 billion worth of securities in the US and European markets respectively, and US\$11 billion of securities in the US market alone.⁷⁴ Bill Emmott estimates that in 1991, 32.1 per cent of all non-sterling loans in the UK were made by Japanese banks.⁷⁵

The size of the individual Japanese banks and securities houses active in the foreign markets was also taken to be representative of emerging Japanese financial power. Ranked by capital assets, in 1994 nine out of the ten largest banks in the world were Japanese, with Dai-Ichi Kangyō topping the list with total assets of US\$520 billion. In the same year, five out of the ten largest insurance companies were Japanese, as were three out of the ten largest securities houses.⁷⁶ The securities houses have seen something of a decline since the high point of the 1980's when they were able to purchase up to 40 per cent of total sales of US treasury bills and to dominate the market for Eurobonds.⁷⁷ But the sheer size and financial stability of firms such as Nomura suggests continued influence.

The explanations for this deluge of Japanese capital outflows into the international financial markets during the 1980's are complex, but tend to focus on a combination of domestic structural changes and pressures for liberalization. One of the features often noted about the Japanese economy up until the end of the 1980's was the high level of savings compared to a relatively low level of domestic consumption. During the high growth periods of the 1960's and 1970's the excess of savings over consumption was absorbed by the demand of Japanese

⁷³Bill Emmott, *Japan's Global Reach*, p. 157.

⁷⁴Sakamoto Katsuzo and Richard C. Conquest, 'The internationalisation of Japanese capital,' in Glenn D. Hook and Michael A. Weiner (eds.), *The Internationalisation of Japan*, London, Routledge, 1992, p. 144.

⁷⁵Bill Emmott, *Japan's Global Reach*, p. 145.

⁷⁶*Asian Wall Street Journal*, 23 October 1995, pp. 22-4.

⁷⁷Bill Emmott, *Japan's Global Reach*, p. 145.

corporations for low interest loans for investment. This demand for savings for investment by Japanese corporations began to drop off with the gradual decline in economic growth rates in the late 1970's and their generally improved liquidity situation. Much of the slack in demand for savings, however, was taken up by the expanding government budgets of this period. But this demand for the funds provided by savings in turn began to be reduced with government efforts in the mid-1980's to restrain budget increases. Declining domestic demand for the continued high level of savings meant that they eventually began to flow outwards as portfolio investments to foreign financial markets which promised more attractive returns.⁷⁸

This domestic structural imbalance in the savings-consumption ration coincided with the trend towards greater liberalisation of finance that has already been described in the section on production. The removal of barriers to the movement of Japanese capital abroad, culminating in the 1981 revised FEFTCL was one result of the pressures for liberalization, as was the September 1985 Plaza Accord that raised the value of the yen against the dollar, so increasing the buying power of Japanese investors in overseas markets. The moves toward overseas investment by Japanese banks was further encouraged by the decision of the BIS in 1987 to set standard capital adequacy ratios of 8 per cent for all its member banks by 1992.⁷⁹ The aim of the directive was to standardise to some degree the risk for investors, but this initially proved to be problematic for Japanese banks accustomed to operating on low capital adequacy ratios of 3 per cent, and made it imperative for them to broaden their capital bases quickly. In order to assist them in this task, the MOF allowed Japanese banks to count 45 per cent of unrealised stock market gains as part of their capital.⁸⁰ The result of this was to in effect tie the capital levels of Japanese banks to the value of the Tōkyō stock market. At the time, the Tōkyō

⁷⁸Eric Helleiner, 'Money and influence: Japanese power in the international monetary and financial system,' in Kathleen Newland (ed.), *The International Relations of Japan*, Macmillan, London, 1990, pp. 24-5.

⁷⁹Sakamoto Katsuzo and Richard Conquest, 'The internationalisation of Japanese capital,' p. 133.

⁸⁰Christopher Wood, *The Bubble Economy: Japan's Extraordinary Speculative Boom of the 80s and the Dramatic Bust of the 90s*, New York, The Atlantic Monthly Press, 1992, p. 25.

market was booming and provided the banks with easy scope to broaden their capital base and so to create more collateral for loans, a large proportion of which flowed to foreign capital markets. As long as the Tôkyô stockmarket continued to rise, the opportunities for banks to create cheap capital seemed to be endless. Finally, this trend was reinforced by interest rate deregulation in the late 1980's and early 1990's. Japanese banks, instead of seeking to boost their profits through the manipulation of domestic interest rates, continued to look for more profitable activities in the stockmarket and abroad.

Direct power from Japanese finance

Having analysed in this way the trends and causes of the expansion of Japanese financial institutions into the world's financial markets since the 1980's, the next step is to consider the types of power that may accrue from this to the Japanese state, and their utility for Japan's security policy as a global civilian power. Nester again makes the connection between the financial activities of Japanese banks and the power of the Japanese state. Making no distinction between the Japanese state itself and Japanese firms, he comments with a touch of hyperbole that, 'Japan is the world's financial superpower, and its financial clout is mind boggling.'⁸¹ Bill Emmott is more cautious in his assessment, but acknowledges the existence of these types of views when he states that, 'the rise of Japanese investment made many people start worrying in the late 1980's about Japanese banks' hold on the financial arteries not just of the United States but also of the world.'⁸²

The growth of Japanese finance has certainly been accepted by scholars from the neo-realist school as signalling a shift in the global balance of power away from the US and, to some degree, towards Japan. In the late 1980's Gilpin argued that Japan's rise to the position of number one creditor nation accompanied by the US's assumption of the position of number one debtor nation, and the growth of the

⁸¹William R. Nester, *Japanese Industrial Targeting*, p. 207.

⁸²Bill Emmott, *Japan's Global Reach*, p. 157.

'Nichibei' economy, was reconfiguring the power relationship between the US and Japan. The Reagan administration's economic and defence policy came to be underwritten by Japanese capital. Japan served as the banker to US political and economic hegemony, supported the US military build-up, the integrity and value of the US dollar, and ultimately US prosperity. Gilpin views Japan's policy in this regard as maintaining access to its most important market in the US, but also as ensuring its own security by bankrolling the US's continued forward deployment in Asia.⁸³

It is hard to doubt that the rise of Japan's position as a global creditor also has produced some change in the global political order as well. Moreover, the provision of Japanese finance to the US could certainly be seen as having aided Japanese security by bolstering the US's commitment to Asian security. What is less clear, however, is how far this financial power is direct or indirect, and how far it has been used consciously for the ends of the Japanese state. In discussions about US financial power, for instance, the sense is often that it has been used deliberately for the state's security. In regard to the case of Japan, examination also needs to be made of how far the state derives direct power from finance and the possibilities of its use for security policy.

Eric Helleiner points out certain cases which have been seen as the manipulation of Japanese financial institutions for the Japanese state's own purposes. One of these is the move by Japanese banks to continue investing heavily in the US markets from 1985 to 1986 even after beginning to suffer financial losses. Helleiner notes that Gilpin attributes this move to coercion by the Japanese government for these banks to remain engaged in the US in order to protect Japanese access to US markets and to the US security umbrella. A second example provided by Helleiner was the return of Japanese investors to the US money markets in 1988 despite a lack of obvious market incentives. Helleiner again notes that some commentators have seen this move by the Japanese banks as resulting

⁸³Robert Gilpin, *The Political Economy of International Relations*, Princeton, New Jersey: Princeton University Press, 1987, pp. 330, 332, 338.

from Japanese government pressure to support the stability of the dollar and hence the reelection chances of the pro-free trade presidential candidate George Bush. These examples are part of a body of thinking which considers the Japanese state as employing as a type of 'investment strike' tool in order to exercise direct economic power and to influence the behaviour of other states.

All this would seem to add up to a plausible argument for significant direct economic power provided to the Japanese state through control of the international investment activities of private financial institutions, which could then be used by it as a global civilian power for security purposes. However, as with the economic component of production, after having built up one possible view of power it is necessary to begin to moderate this by making some important reservations about Japan's direct power in finance and the policy-making obstacles to it. First, and as noted by Helleiner, the two examples of politically inspired investment identified above also have possible market based interpretations. In the case of the believed intervention of the Japanese state in 1985 to 1986, it is just as easy to argue that Japanese firms saw a need to continue their investment over the long term and were willing to accept short term losses to achieve this. As for the 1988 example, Helleiner provides evidence that banks may very well have seen attractive investment opportunities in the US largely unrelated to the issue of George Bush's election campaign.⁸⁴

The second adjustment that needs to be made to the view of the Japanese state's direct financial power is the need to again separate the state from the private actors of the Japanese financial industry and to note increasing limits to state control over it. Examination of the erosion of the economic bureaucracy's control over the sphere of industrial finance reveals that the factors of interministerial conflict, and the role of politicians, big business and liberalization were all significant. These factors also play a role in the Japanese state's ability to manage the international activities of Japanese banks. The limits imposed by declining control over foreign

⁸⁴Eric Helleiner, 'Money and influence', pp. 28-31

exchange and rejection of *amakudari* appointments from the MOF by the city banks have already been seen. The recent scandals involving Daiwa Bank and Sumitomo Trading have highlighted conflict between the economic bureaucracy and the banking industry. The scandals have also further weakened the MOF's image of infallibility, even leading to calls for the ministry's separation from the responsibility for banking regulation.⁸⁵ The influence of the MOF over the banking industry has also been challenged by the emergence of the FTC as an independent actor critical of the MOF. The traditional view of a tight relationship between the MOF and the banks may not be so applicable to the contemporary period, and suggests that the ability of the state's bureaucracy to regulate and manipulate the increasingly globalised Japanese banking industry is becoming as limited as that of other developed states. The question of manifest power, as Helleiner points out, still remains, and there is possibility that as yet the Japanese state has not seen fit to reveal its true direct financial power.⁸⁶ But even if this were so, it indicates that the state cannot readily manipulate finance as a direct component of economic power, so limiting its utility for security policy.

Connected to state control and the utility of financial power is the question of the vulnerability of creditors to Japanese finance and the costs of its threatened withdrawal. One argument often banded around is that the Japanese banks through their large holdings of US treasury bills have the capacity to influence US policy by an implicit threat to cease buying, or to sell bills, so inducing a financial crisis for the US. This argument though may not be so realistic. Even assuming that Japanese banks could be influenced to stop buying bonds--one of the most steadily profitable areas of their business--for a non-market oriented motivation, the US would not necessarily suffer long term financial damage given its latent ability to finance its debt internally.⁸⁷ Furthermore, in dumping US treasury bills, Japanese

⁸⁵Ishizawa Yasuharu, *MOF: Ôkurashô Kenryoku to Demokurashî*, Tôkyô, Chûô Kôronsha, 1995, pp. 301-8

⁸⁶Eric Helleiner, 'Money and influence', p. 31.

⁸⁷Christopher Wood, *The Bubble Economy*, p. 177.

banks would have great difficulty in selling them on to other investors and would be committing virtual financial suicide. The issue of the relationship between creditor and debtor has been discussed in Chapter two and also surfaces in the case of US-Japan financial dealings. Japanese institutions finance the US debt, but any attempt to disrupt the US markets would have a damaging effect upon Japan's own. Thus, while Japanese creditors may have some influence over smaller debtors, in the case of their relationship with the US, an investment strike may only have a significant impact through a major cut off of financial flows. This policy might function well as a tool of financial armageddon, but it is also possible to argue that the careful manipulation of finance to achieve anything other than a massive financial upheaval is not a realistic option.

The fourth limitation on Japanese financial power is the need to consider the scope and likely long term size of capital flows. As Hamada Kôichi points out, the geographical range of Japanese finance extends to Europe, the US and Asia, but not to the socialist countries.⁸⁸ This is despite these being the areas in greatest need of Japanese capital in the post-Cold War period, of potentially high security risk, and where Japanese finance is likely to have the greatest impact. In addition to geographical limits, there is evidence that the outflows of Japanese capital may be reduced over the long term, further sapping Japanese financial power. The domestic structural imbalance of savings over consumption, Emmott has contended, is likely to disappear as the Japanese population ages and absorbs excess savings.⁸⁹ This structural change, however, has been superseded in recent years by the effects of recession in Japan that set in after 1990. The collapse of the Tôkyô bull market in 1990 removed at a stroke the means by which the banks had expanded their capital bases, and also saddled many of them with bad loans on property and land speculation. The relative drying up of capital from Japan caused by domestic economic problems has been compacted by the global recession and a

⁸⁸Hamada Kôichi, 'Japan's prospective role in the international monetary regime', p. 144.

⁸⁹Bill Emmott, *The Sun Also Sets: The Limits to Japan's Economic Power*, New York, Random House, 1989, pp. 25-136.

similar collapse in property markets in such places as California and the City of London. In February 1992, Japanese banks were estimated to have been saddled with US\$37 billion of bad loans, and ¥12.4 trillion of non-performing loans.⁹⁰ Recession in Japan and bad loans has led to a shake-out of the banking industry in Japan, demonstrated by the collapse of secondary banks, housing loan corporations, and the formal announcement by major Japanese banks of losses for the first time.

The effect on the Japanese financial presence overseas has been marked. Japanese overseas lending fell by 28.5 per cent in 1992 and by 78.3 per cent in 1993.⁹¹ According to the financial journalist Christopher Wood, in 1989 Japanese banks held US\$114 of total net overseas portfolio investment, but by 1990 this figure had fallen to US\$39 billion.⁹²

The Japanese banking system is likely to correct itself in time, but the vulnerability of Japanese financial institutions that was revealed suddenly in the 1990's is an important correction to the image of Japanese financial invincibility in the previous decade. Thus, Japan's direct financial power and the power of the Japanese state over it needs to be appraised carefully. Japanese state power over finance exists to some degree, but is subject to a range of limitations, is not easily activated, and may be contracting over the longer term.

Indirect power from Japanese finance

This then brings the discussion round to the subject of indirect financial power. While the flow of Japanese finance has abated in the 1990's, the institutions that established a foothold in international markets in the previous decade are likely to gradually strengthen their presence. True financial power may then have been accrued to Japan in the indirect form. Japanese banks perhaps do not set the norms

⁹⁰Bill Emmott, *Japan's Global Reach*, p. 157; Organization for Economic Cooperation and Development, *OECD Economic Surveys: Japan 1993-94*, p. 45.

⁹¹Bill Emmott, *Japan's Global Reach*, p. 158; Organization for Economic Cooperation and Development, *OECD Economic Surveys: Japan 1993-94*, p. 39.

⁹²Christopher Wood, *The Bubble Economy*, p. 91.

of the finance through their investment activities, and appear to be slower than their rival US counterparts to innovate in many aspects of securities banking such as Mergers and Acquisitions (M&A) and the development of new financial instruments. However, the presence of Japanese banks and the necessity of dealing with them has meant that Japanese institutions have been integrated into the international financial community and make their influence felt by their sheer size. This process is clearly not irreversible, as shown by expulsion of Daiwa Bank from the New York markets in 1995 for the concealment of trading losses. But the massive size of Japan's banks and security houses does imply a new found Japanese indirect power in finance. The security aspects of this are hard to evaluate. While this indirect financial power may not be used by the Japanese state to impose costs or to offer positive and negative sanctions to another state, its may serve to integrate other states and Japan itself into the global economy and to provide stability. Indirect Japanese financial power may serve the same function as the US's of creating a stable and favourable security environment, and hence needs to be considered in chapter five when looking at Japan's ability to resolve the North Korean security problem with financial power.

The monetary system and Japanese indirect power

The other aspect of financial power already described in chapter two is that of the role of state's currency within the international monetary system. The chief form of power derived from the international monetary system is indirect power, and its chief security benefit is the integration of the regional and global economy through the promotion of trade and exchange. The increasing strength of the Japanese yen since the 1970's has resulted in speculation over the yen's future use as an international reserve currency. In particular, there is the idea of a 'yen bloc' in Asia as one way of establishing Japan's economic leadership in the region, bringing with it possible stabilising political and security effects as well.

The use of the yen as a reserve currency and as a currency of international trade is low in comparison to the dollar but has been steadily on the increase since the mid-1970's. In 1975, 79 per cent of international currency reserves were held in US dollars, and only 0.5 per cent in Japanese yen. In 1980, 70 per cent of central bank reserves were in dollars and two per cent in yen. By 1985, the use of the dollar had declined to 65 per cent and the yen had risen to five per cent, and by 1988 the dollar accounted for around 63 per cent of central bank reserves and the yen around 8 per cent.⁹³

The use of the yen for international trade has been estimated as only two per cent of world totals, and it is clear that the Japanese government itself has not favoured the use of the yen for the country's own trade. In 1980 only 17.6 per cent of Japan's exports and only one per cent of its imports were denominated in yen. As the 1980's progressed, though, the use by Japan of the yen increased. 35 per cent of exports and 11 per cent of imports were in yen by 1987, and these figures had increased to 37.5 per cent and 14.5 per cent respectively by 1990.⁹⁴

The comparative underuse of the yen is perhaps surprising given the position of Japan in the world economy, and the attractiveness of the yen as a reserve currency backed by the stable and low inflation domestic Japanese economy. The reasons for this underuse are threefold. First, Japan's largest single market in the post-war period has been the US which, of course, uses the dollar to denominate transactions. Second, a large proportion of Japan's imports consists of raw materials which are usually priced in dollars on the world markets. Third, the Japanese government also appears to have been keen to avoid the use of the yen based on twin economic and political rationales.⁹⁵

⁹³William R. Nester, *Japanese Industrial Targeting*, p. 242; Bill Emmott, *The Sun Also Sets*, p. 195; Sakamoto Katsuzo and Richard Conquest, 'The internationalisation of Japanese capital', p. 146; Gyôten Toyô, 'Internationalisation of the yen: its implications for US-Japan relations', in Hugh Patrick and Tachi Ryûichirô (eds.), *Japan and the United States Today: Exchange Rates, Macroeconomic Policies and Financial Market Innovations*, p. 85.

⁹⁴Bill Emmott, *The Sun Also Sets*, p. 195; Hamada Kôichi, 'Japan's prospective role in the international monetary regime', p. 149.

⁹⁵Gyôten Toyô, 'Internationalisation of the yen', p. 86.

The economic rationale for restricted use of the yen is linked to Japan's attempts since 1949 to keep the price of the yen low against the dollar. SCAP fixed the price of the yen at ¥360 to the dollar in 1949 and subsequent Japanese governments came to regard this rate as 'inviolable'.⁹⁶ International pressure forced revaluations of the yen in 1971 (¥308 to the dollar) and in 1978 (¥176 to the dollar), but it is believed that the Japanese government responded to increased currency exchange liberalization by operating a 'dirty' float and intervening in the market to prevent further rises in the value of the yen against the dollar.⁹⁷ In the first half of the 1980's, the yen benefited from the Reagan administration's policy of 'benign neglect' towards the dollar and fell in value. However, after the September 1985 Plaza Accord, the value of the yen has risen continually, reaching levels of around ¥100 to the dollar by 1994, and an all-time high of ¥79 to the dollar in 1995. The problems of the high yen in the 1990's have demonstrated why the Japanese government has long sought to maintain a yen rate against the dollar. The clear aim in the past has been to keep the yen low in order to alleviate balance of payments problems, and also to enable the BOJ to keep interest rates low to promote economic growth. Low interest rates have the added bonus of reducing the attractiveness of the yen to foreign investors and thus insulate the Japanese economy from the shock of fluctuations in currency prices.⁹⁸ The political rationale for avoidance of the international use of the yen can be seen as freeing Japan from the type of criticism that might accompany the use of the yen by its Asian neighbours, and fears of the recreation of a Japanese dominated Greater East Asia Coprosperity Sphere with a common Japanese currency.

In the late 1980's and early 1990's, however, these economic and political rationales have become increasingly untenable as the progress of globalisation and regionalisation has led to the increased value and use of the yen. The progress of

⁹⁶T. J. Pempel, 'Japanese foreign economic policy', p. 770.

⁹⁷William R. Nester, *Japanese Industrial Targeting*, p. 240; T. J. Pempel, 'Japanese foreign economic policy', p. 771.

⁹⁸Gary R. Saxonhouse, 'The world economy and Japanese foreign policy,' in Robert Scalapino (ed.), *The Foreign Policy of Modern Japan*, p. 301.

globalisation has meant that the Japanese state perhaps is beginning to lose control of its currency in a way similar to other developed nations. The rise in the value of the yen and fall in the value of the dollar has been halted by concerted central bank action and the recovery in the US economy, but the suspicion of some has been that the yen's inexorable rise was the result of a renewed policy of benign neglect by the Clinton administration to squeeze Japan's exporting sectors, and a policy which the Japan government and its financial institutions could do little about until the US agreed to serious cooperative efforts to halt the dollar's slide. The US's policy of reducing Japanese exports through allowing a rise in the price of the yen was only partially successful due to the resourcefulness of Japanese corporations, but it demonstrate the growing inability of the Japanese government to control the price of the yen and the inevitable spread of its use in accordance with its rising value. The picture of reduced control over the yen is also reinforced by the emergence in the 1980's of illegal 'samurai bonds' denominated in yen but uncontrollable by the MOF.⁹⁹

The processes of regionalisation in East Asia are also acting to promote the further use of the yen. Intra-regional trade between Japan, ASEAN and the three Newly Industrialized Economies (NIEs), South Korea, Taiwan and Hong Kong has increased greatly since the 1980's. In 1987, around 12.5 per cent of Japan's trade was conducted with the Asian NIEs, and the total value of trade nearly tripled between 1980 and 1989. Value of trade with the ASEAN nations increased by about one third. This increase in intra-regional trade also meant an increase in the use of the yen as the medium of exchange between Japan and its trading partners. For instance, in 1994 around 30 per cent of imports from Southeast Asia were denominated in yen. The countries of the region have also increased their reliance upon the yen as a reserve currency and are estimated to now hold around 30 per cent of their central bank reserves in yen.¹⁰⁰ Furthermore, the proliferation of the

⁹⁹William R. Nester, *Japanese Industrial Targeting*, p. 231.

¹⁰⁰Bill Emmott, *The Sun Also Sets*, pp. 192, 196.

use of the yen is likely to continue in step with the expansion of intra-regional trade and calls for Japan to provide the public good of its currency to the East Asian region.

The implications of the increased use of the yen for Japan's indirect power are unclear. On a global scale, the yen is unlikely to replace the dollar as the main currency, and even on the regional scale it may not assume the position of the dominant currency--as the Deutschmark has done in Europe--due to political resistance from the nations of Asia. However, even if the yen does not become dominant, it will continue to play an important supporting role for the dollar on both the regional and global levels, assisting in the process of integration and creation of stability. The flipside of this, though, is resistance to a yen bloc as with resistance in Europe on the popular level to a single European currency essentially based on the deutschmark. But the overall likely impact of the yen's use internationally, and especially in Asia, is to create stability, and to ensure Japan's security by the creation of a favourable security environment.

JAPANESE TRADE POWER

For politicians and economic analysts alike, the related issues of Japan's trade imbalances and trade practices have proved to be highly contentious. Since the late 1960's and the emergence of disputes over steel and textiles, trade friction has become one of the dominant political issues in Japan's relationship with the US, its largest trading partner. The importance of trade has been demonstrated by repeated bilateral negotiations on the issue and the willingness of both sides to invoke the rhetoric of 'trade wars' if negotiations are not resolved to one of the sides' satisfaction. The US also has been prepared to back this rhetoric with some specific action, as shown by the enactment of the 1988 Trade Act and Super 301 provisions, designed to retaliate against those states deemed to be using unfair trading practices such as Japan.¹⁰¹ Trade has also often been an issue of bilateral

¹⁰¹For the recent history of US-Japan trade relations: Merit E. Janow, 'Trading with an ally: progress and discontent in US-Japan trade relations,' in Gerald L. Curtis (ed.), *The United States*,

tension between Japan and the states of the EU, and between Japan and its trading partners in Asia. The anti-Japanese riots on the occasion of Prime Minister Tanaka Kakuei's visit to Southeast Asia in 1974 were partly a reaction to the FDI policies of Japanese corporations, but also to the trade policies of the Japanese government which were seen to encourage the export of Japanese manufactures to the region, but which in return only sought to import low-cost raw materials to Japan.

Since the 1970's, the Japanese government has made efforts to deal with these bilateral trade issues, has moved towards the greater liberalisation of its domestic markets, and in the case of Southeast Asia progress has been made in correcting the one-sided trade flows and the accompanying political problems. Japan has made progress also in trade relations with the US and the EU, but still many of the concerns and disputes of the 1970's have carried over into the 1980's. Despite the formal liberalization of the Japanese market and the removal of tariff barriers to trade, it is still argued that non-tariff barriers have remained in place, and that these have been preserved either by the deliberate policy of the Japanese economic bureaucracy and politicians, or by a lack of a real initiative on their part to overcome the inertia and vested interests which have kept trade barriers in place. Given these types of analyses of Japan's trade practices, it has often been seen as necessary for Japan's trading partners to take the lead in reforming Japanese trade. Many US policy-makers seem to have accepted the need to apply foreign pressure, or *gaiatsu*, to push for the opening of what they see as Japan's closed markets and to facilitate the 'releveling' of the playing field of trade. The Bush administration initiated bilateral negotiations with Japan on sectoral and structural impediments to trade an economic and political priority, and the Clinton administration has continued with this bilateral approach to trade relations. There have also been moves, although perhaps less effective, to exert pressure for the reform of trade practices on the multilateral level through GATT and Asia-Pacific Economic Cooperation (APEC).

Japan, and Asia, New York and London, W. W. Norton and Company, 1994, pp. 53-95; Edward Lincoln, *Japan's Unequal Trade*, Washington DC, The Brookings Institute, 1990; 'Japanese trade and investment issues', in Danny Unger and Paul Blackburn (eds.), *Japan's Emerging Global Role*, Boulder, Colorado: Lynne Rienner, 1993, pp. 133-154.

The problem of trade and the degree of 'fairness' of Japanese trade practices is an extremely complex one, and defies easy examination. The extensive literature on Japanese trade, often employing sophisticated economic analysis, would seem to confirm the complexity of the problem. But while the process of analysis is often complex and sophisticated, it appears that the end conclusions are not always so. To the uncommitted observer it can seem that much of the analysis of trade can approach the level of polemic. Some tracts set out an apologist position for Japan and shift the problems of trade on to its trading partners, while others place the blame for bilateral trade deficits and friction squarely at the door of Japanese corporations and policy-makers. Moreover, many of the arguments put forward by Japanese and US scholars and politicians have a sense of circularity and (perhaps deliberately in the case of politicians) of talking past each other and appealing to their respective domestic audiences. For it is clear that, as pointed out in chapter two, that trade is an intensely political process, and that this affects its practice on the level of its practitioners, regulators and analysts.

The aim of this section is to avoid becoming entangled in the complex and not always productive debate over the relative 'fairness' or 'equalness' of Japan's trade practices. To be sure, it is an important issue for trade negotiators and politicians. Instead, for the purposes of this thesis, recognition of the political importance of Japan's trade strengthens the argument for the need to relate the problem to the discussion over economic power and security policy. The trade disputes between the US and Japan are concerned fundamentally with the role that trade plays in wealth creation, the distribution of international economic and political power, and also in the making of security policy. Thus, the procedure and aim of the following section, is to outline the types of power derived by Japan from trade, the limits to the control of trade as a component of economic power, and the relation between Japanese trade power and security policy. By delineating the limits to Japan's power in trade, the ground will then be prepared for examining the extent of this

component's utility for security in the case of the North Korean security problem presented in chapter five.

The size and scope of Japanese trade

The size and patterns of Japan's trade are again suggestive of a great deal of raw power that could be mobilised in the interests of the state. The most obvious representation of Japan's trading power has been the growth of its trade and trade surplus. Between 1960 and 1994, the annual value of Japan's exports increased from US\$45 billion to US\$396 billion, and the annual value of Japan's imports rose from US\$41 billion to US\$275 billion. Japan's balance of trade in the same period changed from an annual deficit of US\$400 million in 1960 to an annual surplus of US\$121 billion in 1994. Japan has also grown to account for a greater relative share of world trade.¹⁰² In 1972, Japan accounted for 5 per cent and 7 per cent of world imports and exports respectively. In 1992, Japan increased its share to 6 per cent of imports and 9 per cent of exports. The US's share, by comparison, has remained constant at around 14 per cent of world imports, and falling slightly to account for around 12 per cent of world exports.¹⁰³ Therefore, Japan has not seen a great expansion in its share of world trade since the 1970's, but it has begun to rival the US in the area of exports.

The geographical distribution of Japan's trade has also begun to change over time. The US still remains Japan's largest trading partner, with total levels of trade rising from US\$56 billion in 1980, to US\$141 billion in 1989. This rise in trade has also been accompanied by an increase in Japan's trade surplus with the US, rising to an annual US\$55 billion by 1994. Japan's trade surplus with the EU stood at US\$22 billion in the same year.¹⁰⁴ But, as has been discussed in the section on finance, since the 1980's a new pattern has begun to emerge in Japanese trade, with

¹⁰²Asahi Shimbun, *The Japan Almanac 1996*, p. 106.

¹⁰³Michael W. Donnelly, 'The political economy of Japanese trade,' in Richard Stubbs and Geoffrey R. D. Underhill (eds.), *Political Economy and the Changing Global Order*, London, Macmillan, 1994, p. 485.

¹⁰⁴Asahi Shimbun, *The Japan Almanac 1996*, p. 106.

an increased emphasis upon trade with Asia. Between 1985 and 1994, the share of Japan's total trade with China, the ASEAN 4 (Thailand, Singapore, Malaysia, Indonesia) and the NIEs grew from 24.2 per cent to 38.6 per cent, and reached a level where it exceeded the share of total trade with the US (29.7 per cent).¹⁰⁵ By 1989, combined dollar values of Japanese trade with China, the ASEAN 5 (Thailand, Singapore, Malaysia, Indonesia and the Philippines) and the NIEs, totalling US\$139 billion, were nearly already equal to the US\$141 billion of trade with the US in the same year. This growth of Japan-Asia trade has meant that to some extent Japan has diversified its trade away from its dependency upon the US market. However, given that the US is still Japan's single largest national market this means that it is still reliant upon a unitary state actor that can convert this dependency into an important political and economic bilateral issue.

As for the composition of Japan's trade, Edward Lincoln points out that in comparison to other developed nations Japan's imports of manufactured products have been unusually low, whereas its exports of manufactured products have been high. This he ascribes to the Japanese government's unequal trade policies.¹⁰⁶ Japan, though, has been reliant traditionally upon high levels of imports of raw materials, and also has run a consistent deficit on services--totalling US\$46 billion in 1992.¹⁰⁷

The importance to the Japanese economy of foreign trade is put into perspective by the relatively low figure of 10 per cent GNP accounted for by it.¹⁰⁸ Measured by this indicator Japanese economic growth cannot be said to be export-led. However, foreign trade is essential to the growth of the domestic Japanese economy because it enables Japan to acquire through exports the foreign currency with which to pay for the imports of raw materials and technology that are essential

¹⁰⁵Tsûsanshō Sangyōshōhen, *Tsûsanshō Hakushō*, Tōkyō, Ōkurashō Insatsukyoku, 1995, p. 71.

¹⁰⁶Edward Lincoln, *Japan's Unequal Trade*, pp. 12-38.

¹⁰⁷Michael W. Donnelly, 'The political economy of Japanese trade,' p. 489.

¹⁰⁸Michael W. Donnelly, 'The political economy of Japanese trade,' p. 489.

for the economy to grow smoothly. In this sense, then, foreign trade occupies a relatively small but crucial position in the operation of the Japanese economy.

Direct economic power from Japanese trade

The measures of the growth of Japanese trade described above, and the prosperity that it has brought to Japan, suggests major economic success in the field of trade. In particular, the success of Japanese trade has been seen as confirmation of the trade promotion policies of MITI and other elements of the economic bureaucracy. Organisations such as JETRO (Japan External Trade Organisation), and the Japan Export-Import Bank are the most visible manifestation of what has been perceived as the conscious manipulation of trade by the Japanese state and MITI, with the purpose of expanding Japanese economic power.

The question, though, of the Japanese state's ability or even deliberate intention to manipulate trade as a component of economic power has to be viewed once again in the light of the possible restrictions on state power that have been discussed in previous sections. For Japanese policy-makers, as for their US counterparts, trade is clearly an important political, diplomatic, and foreign policy issue. But how far the Japanese state can accrue any direct power to be used in the interests of the state and its security needs to be examined.

The starting point for the limitations on state control of trade and trade policy is, once again, the problem of internal divisions within its institutions and ministerial conflict. As Michael Donnelly points out, the Japanese state has no central coordinating agency with control over trade, and rather than setting out a clear strategic policy on trade, many of the policy decisions on trade are taken on an 'ad hoc' basis during negotiations with other states. The absence of a coordinating body encourages intra and inter-ministerial conflict over trade. The differences over trade policy between the ITB wing of MITI and the rest of the ministry in the 1950's have already been touched upon, and the possibility of disputes between ministries is heightened by the necessity of consulting MITI, the MOF and the

MOFA over trade issues.¹⁰⁹ Each of these ministries has a slightly different agenda on trade policy. The MOFA, for instance, emphasises the importance of the US alliance in trade negotiations, whereas MITI is more likely to emphasise commercial considerations. The issue of trade also brings in other elements of the bureaucracy such as the MFFA. The MFFA has been concerned to protect the interests of its own client groups from the pressures of liberalisation, with the issue of rice imports being the most notable instance of this.

'Clientism' also brings in the second restraint on the state's ability to articulate a coherent trade strategy--the politicians. The existence of *zoku*, within the LDP and PARC (Policy Affairs Research Committee) has contributed to the protection of certain interest groups, and, as Gerald Curtis notes, has undermined the ability of the bureaucracy and Japanese leaders to respond easily to international pressures.¹¹⁰ The case of agriculture and rice imports is a good example of how a combination of bureaucratic and political opposition could block progress on trade reform. The role of the politicians, then, also throws into doubt the Japanese state's bureaucracy without the cooperation of the politicians to control trade and the ability of the state to trade readily to its advantage as a tool of foreign policy.

The other main and perhaps most importance hindrance to the Japanese state's control of trade has been, and is likely to continue to be, foreign pressure. In the immediate post-World War II period Japan's relations with the US essentially set the possible geographical and economic parameters of Japanese trade, to a large extent cutting Japan off from access to the Soviet bloc and China. It was only after the US's normalisation of relations with China in 1973 that the Japanese government and Japanese corporations were free to resume direct trade on a large scale with this historically important market. In the contemporary era, it is again foreign pressure in the guise of *gaiatsu* that has been seen as responsible for the progress of the liberalisation of the Japanese economy; either as a genuine force of

¹⁰⁹Michael W. Donnelly, 'The political economy of Japanese trade,' p. 492.

¹¹⁰Gerald L. Curtis, *The Japanese Way of Politics*, New York, Columbia University Press, 1988, pp. 114-6.

change that overcomes domestic opposition, or as a mix of this and the provision of an excuse to Japanese policy-makers to legitimise liberalisation. In one sense, foreign pressure is an advantage to Japan in allowing policy-makers to break the domestic impasse on liberalisation of trade and to push forward their own policy goals. But overall, the need to rely upon *gaiatsu* represents limits to the state's control of trade policy.

Added to these limitations of conflict within the economic bureaucracy, the influence of politicians, and the role of foreign pressure, attention also needs to be given to the role of the corporations which conduct Japan's trade. It is clear that most corporations will favour the state's policies if they promote exports and restrict access to Japan's domestic markets. But beyond these broad areas of policy consensus there are likely to be difficulties in influencing firms to move in line with specific government policies on trade if they are perceived to conflict with a corporation's fundamental business interests. Corporations that trade abroad will be in harmony with the state's plans for export promotion, but will be less willing to cooperate with state plans that interfere in profitable trading activities for political reasons.

When thinking about the role of companies in limiting Japanese state control of trade, it is also important to note that many corporations engaged in foreign trade are perhaps already outside the easy control of the state's bureaucracy and political influence. The earlier section on production showed the relative independence from the state's formal controls of Japanese TNCs in the electronics and automobile industries. It is also worth noting that the *Sôgôshôsha* general trading corporations, which are responsible for so much of Japanese trade, are seen as increasingly independent of their own *zaibatsu* groupings and state pressure in the form of the bureaucracy. The *Sôgôshôsha* have been described as the 'vanguard' of the Japanese economy, but they do not necessarily perform this function in the service of the Japanese state. Termed by Alexander Young as 'unique global trading institutions', the *Sôgôshôsha* accumulated sales of US\$350 billion in 1982. In

1975, the ten largest Sôgôshôsha handled 56.4 per cent of Japan's total exports and 55.6 per cent of its total imports. In the same year they also handled 53 per cent of exports and 55.6 per cent of imports by Japanese corporations to and from Southeast Asia, 56 per cent of Japanese exports to the communist bloc, and between 40 and 44 per cent of Japanese exports to Western Europe, North America and Oceania.¹¹¹ The Sôgôshôsha are involved in a range of industries, such as textiles, chemicals, and steel, but the core of their business is the trading of raw materials and the products of the Sôgôshôsha's industrial groups. Thus, in 1973, the Sôgôshôsha dealt with 81 per cent of Japan's metal imports, 79 per cent of the iron ore imports and 89 per cent of the coking coal imports of Japan's top six steel makers.¹¹² Backing Sôgôshôsha activities is a large information network, reputed to rival that of the US State Department, with an ability to conduct independently research and development, to finance trade, and to sponsor third-party trade.¹¹³

The Sôgôshôsha, therefore, are key actors in Japan's trade, and access to these corporations' information networks and trading activities would clearly be of benefit to the state in constructing its trade policy and in exerting control over trade. But as outlined in the section on production, the Sôgôshôsha have not usually been regarded as being under the dominance of the Japanese state's economic bureaucracy, even though they have often cooperated in state policies such as the sourcing of raw materials and fuels. The Sôgôshôsha's do owe their reformation and reorganisation in the post-war period to the economic policy of the Japanese state's bureaucracy, but they have not been overly reliant upon government financing, and have not been noted for accepting *ex-bureaucrats* through the *amakudari* system. Hence, when the picture of state control over trade is examined, one important proviso is that the companies most crucial to Japanese trade may in

¹¹¹Alexander K. Young, *The Sogoshosha*, pp. 4, 8, 19.

¹¹²Alexander K. Young, *The Sogoshosha*, p. 121.

¹¹³Alexander K. Young, *The Sogoshosha*, pp. 74-9; Thomas Huber, *Strategic Economy*, p. 100; Pempel, 'Japan's foreign economic policy', pp. 735-6.

fact not be easily amenable to state control. The Japanese state does, of course, retain the ability to force its control over corporations engaged in foreign trade, but more subtle forms of control may have evaded the state, so limiting trade's utility as a component of direct economic power. Thus, when looking at the trade relations between Japan and North Korea in chapter five, it will be necessary to consider how far the state can enlist the support of Japanese trading companies in the service of its security policy.

If trade is viewed as an element of direct economic power, Japan's own vulnerability to the costs of an interruption of trade is clear. The Japanese state's politicians and bureaucracy might be able to manipulate trade in certain situations for its security ends, and this would impact upon trading partners such as the NIEs for which Japan has become a key market. But conversely, even though the size of Japan's trade sector is relatively small compared to the overall size of its economy, trade plays an important role in ensuring economic growth. Thus, trade conflict with the US would clearly damage Japan's economy, and disputes with trading partners in Southeast Asia, the Middle East and Oceania would affect Japan's raw material supplies in particular. Japan's vulnerability in trade has been reduced to some extent by the diversification of its markets, but it is still reliant upon the US market and free access to it. All this suggests that for Japan, trade has limited value as a means of imposing costs upon another state for security ends.

Nevertheless, Japan has engaged in some uses of trade as a component of direct economic power in order to impose negative sanctions upon other states. As a member of COCOM (Coordinating Committee of Export Control) during the Cold War, Japan took steps to prevent the export of technologies to the Soviet bloc, and these restrictions were again strengthened after the invasion of Afghanistan in 1979. The attractiveness of COCOM for Japanese policy makers is, though, doubtful given that this was an essentially US-inspired regime. Moreover, the example of COCOM demonstrates the difficulties that Japan has had in imposing trade restrictions on other states even when they are backed with clear legal powers.

The Tôshiba affair of 1988 embarrassed the Japanese government by demonstrating its abject failure to effectively impose trade sanctions for security ends.¹¹⁴

Evidence suggests that Japanese policy makers instead favour the greater utility of positive trade sanctions for security ends. Japanese corporations were allowed to continue to trade with Vietnam in the 1970's and 1980's despite US disapproval and restrictions on its own companies. On the one hand, this has been seen as the toleration of trade for blatant commercial advantage, but on the other hand, the case can also be made that trade has been viewed by the Japanese state as a means of building stability in the region by extending positive sanctions. Much of this type of thinking may be present in Japan's policy towards China. The preference of the Japanese government for preserving trading links with China and not reverting to negative sanctions, such as the withdrawal of MFN (Most Favoured Nation) status often advocated by US lawmakers, is a sign that Japanese policy-makers see positive sanctions as more effective in moderating China's behavior and settling security issues over the long term. In this way, Japan's China policy can be seen as the use of positive sanctions and direct economic power to build indirect economic power and the resulting security benefits of integration and interdependency. The question of Japanese indirect economic power manifested in interdependency and multilateral trade organisations will be considered next.

Indirect economic power and Japanese trade

Chapter two outlined how it is possible to conceive that the setting by a state of the norms of international trade and the engagement of other states in them can bring about indirect economic power, interdependency and security. It was also outlined how since the end of World War II, the US has expounded the most powerful ideology of free trade and established indirect economic power by creating an environment for integration under the norms of GATT. It could also be argued that

¹¹⁴Yamamoto Takehiko, 'Keizai gaikô' in Aruga Tadashi, Uno Shigeaki, Kido Shigeru, Yamamoto Yoshinobu, and Watanabe Akio (eds.), *Kôza Kokusai Seiji 4: Nihon no Gaikô*, Tôkyô, Tôkyô University Press, 1989, pp. 171-4.

Japan has been responsible for establishing a counter-theory of trade which advocates mercantilism and a 'free ride' within the liberal international trading system, and that this has been adopted in Asia by the NIEs and China. But at the same time, the pressures on Japan for liberalisation have also begun to change its trading behavior. The result of this has been that Japan has worked to strengthen the liberal trading system, but also that there have been some indications that Japan could take the lead in laying down trading norms and a regional trading system in Asia.

Japan is a member of a number of multilateral bodies concerned with promoting trade. Japan joined GATT in 1955, the IMF in 1964, the OECD in 1964, and APEC in 1989. In the case of GATT, most of the initial trade norms were established by the US and the developed states of the West. Japan's position as a relative 'latecomer' cast its role as a state supportive of GATT, but not one with a leading role in setting its agenda. Moreover, the types of domestic conflicts over trade policy described above have meant that Japan has not been perceived as having taken a decisive role in the remaking of GATT and in the creation of its successor the WTO during the Uruguay Round of 1986-1993. For Japan, as for some member states of the EU, the Uruguay round was dominated by disputes over agriculture. Thus, in the case of GATT, Japan may have accrued very little indirect economic power, and instead of cooperation, Japan's input created friction between it and other industrialised states. On the other hand, as Reinhard Drifte points out, Japan's ability to expend very little political credit and still influence the outcome of the negotiations is evidence of Japanese structural power.¹¹⁵

However, uncertainty over the degree of indirect power on the global scale of GATT may be compensated for by influence at the regional level. The free trade regime of GATT, whilst not created by Japan, has allowed Japan's growth within the Asia-Pacific region as a regional and world economic power. Japan has assumed a position of economic leadership in Asia, and can act as the model and

¹¹⁵Reinhard Drifte, *Japan's Foreign Policy in the 1990s*, pp. 93-5.

engine of economic growth in the region. This position has made it possible for scholars and political leaders within the region to conceptualise a regional trading bloc lead by Japan. Since the 1960's a number of regional Pacific and Asian trading groups have been proposed and if realised would have represented considerable indirect power for Japan.¹¹⁶ That these groups did not come to fruition can be explained by Japan's obvious reluctance to sacrifice its bilateral economic and political relationship with the US. In the 1990's, though, Japan has again been expected to play a major role in the creation of a regional trading bloc.¹¹⁷ Two competing conceptions of regionalism in Asia, EAEC (East Asia Economic Caucus) and APEC (Asia-Pacific Economic Cooperation) both offer Japan a leading role in setting the norms of trade. EAEC, as proposed by Malaysian Prime Minister Mahathir, offers Japan overall possible leadership of an exclusively East Asian bloc, with the likely ability to set the conditions of trade. APEC, by contrast, provides Japan with less scope to establish norms due to the participation of the US and other developed nations of the Pacific Rim, but Japan is still viewed as a key leader in the regionalisation process. Japan's preference for the latter form of regionalism again reflects the importance that is attached to the US relationship, and acts to restrain Japan's accumulation of indirect power by setting the norms of trade.¹¹⁸ But the supporting role that Japan can fulfill and the continued suspicion by some Asian states of the US's presence in the Asian economy means that Japan will probably have more effect upon establishing the norms of trade in APEC than in GATT. Furthermore, as Japanese participation in this economic region deepens and strengthens the trend already discussed of greater trade interdependency between Japan, the NIEs, ASEAN and China, so Japan's leadership role and indirect power will grow. The process of regionalisation is not without problems, the biggest of which is how to integrate China into the trading system, but Japan's

¹¹⁶For a detailed history of one of these key proposals--PAFTA, see Pekka Korhonen, *Japan and the Pacific Free Trade Area*, London, Routledge, 1994, pp. 72-156.

¹¹⁷Funabashi Yûichi, *Ajia Taiheiyô Fujion: APEC to Nihon*, Tôkyô, Chûôkôronsha, 1995.

¹¹⁸Lee Poh-Ping, 'Japan and the Asia-Pacific region: a Southeast Asian perspective', in Craig G. Garby and Mary Brown Bullock (eds.), *Japan: A New Kind of Superpower?*, Ithaca, New York: The Johns Hopkins University Press, 1994, pp. 130-1.

true trading power and security interests may lie in this area of indirect economic power. Consequently, based on this conclusion, the case study of Japan-North Korea relations presented in chapter five will look in depth at how Japanese indirect trade power can work to integrate North Korea into the emergent regional economy and how this can serve Japan's security purposes as a global civilian power.

ENERGY AND JAPANESE ECONOMIC POWER

Japan's energy dependency

Calculated in terms of tons of oil, Japan is the world's third largest individual consumer of all forms of energy after the US and China, at around 4 billion tons in 1990.¹¹⁹ In terms of actual oil consumed, Japan is the number three consumer after the US and CIS (Commonwealth of Independent States), at around 2.5 billion tons per annum in 1992, and in late 1970, Japan accounted for around 15 per cent of total world demand for oil.¹²⁰ Japan's production of oil is negligible and it is reliant upon oil imports for 99.7 per cent of its supplies, with around 64 per cent of oil imports from the Middle East in 1981.¹²¹ This figure has been reduced since the early 1970's and levels of around 70 per cent, but 59 per cent of Japan's oil still came through the Straits of Hormuz in 1989.¹²² Oil supplies for Japan are vital, providing around 57 per cent of its total energy needs in 1993. Again, this figure has been reduced since the high levels of around 74 per cent in the mid-1970's, but in 1988 Japan's reliance on oil was still greater than all the other G7 nations with the exception of Italy.¹²³

¹¹⁹Miyazaki Isamu, *Sekai Keizai Zusetsu*, Tōkyō, Iwanami Shinsho, 1995, p. 123.

¹²⁰Miyazaki Isamu, *Sekai Keizai Zusetsu*, p. 125; Gerald L. Curtis, 'The Tyumen oil development project and Japanese foreign policy decision-making', in Robert Scalapino, *The Foreign Policy of Modern Japan*, p. 149.

¹²¹Asahi Shimbun, *The Japan Almanac 1996*, p. 163; Shigen Enerugichōhen, *Sekiyū Daisan Enerugi Ichiran*, Tōkyō, Tsūshōsangyōchōsakai, 1990, p. 9.

¹²²Shigen Enerugichōhen, *Sekiyū Daisan Enerugi Ichiran*, p. 9.

¹²³Valerie Yorke, 'Oil, the Middle East and Japan's search for security', in Akao Nobuyuki (ed.), *Japan's Economic Security: Resources as a Factor in Foreign Policy*, London, Gower, 1983, p. 48; Asahi Shimbun, *The Japan Almanac 1996*, Tokyo, Asahi Shimbunsha, 1995, p. 163; Shigen Enerugichōhen, *Sekiyū Daisan Enerugi Ichiran*, p. 57.

Not only is Japan dependent upon foreign sources of oil, it is also dependent upon foreign suppliers of oil in the shape of the major transnational oil companies. Curtis has pointed out that in 1972, the six majors (Caltex, Esso, Mobil, Gulf, Shell, BP, CFP) accounted for around 60 per cent of Japan's oil supplies, with independent US-based companies accounting for another 12 per cent, and Japanese companies only around 10 per cent.¹²⁴ The impression of the relative weakness of Japanese oil companies is added to by Samuels' observation that there is no Japanese oil company similar to foreign rivals which is vertically integrated through the stages of exploration, development, refining and distribution.¹²⁵ Thus, the oil industry is a rare instance of the domination of the Japanese market by foreign corporations, and Japan has been placed firmly under the 'umbrella of the majors' (*meijû no kasa*).

The situation of foreign dependency is repeated with regard to the other main primary energy sources of coal, gas and uranium ore.¹²⁶ Coal accounted for around 16 per cent of Japanese energy in 1993, declining from around 20 per cent in 1970.¹²⁷ Whilst Japan does possess domestic supplies of coal, the relatively high cost of mining in Japan has meant that since the 1970's around 80 per cent of Japan's coal has been imported. In the 1970's the major suppliers of coal to Japan were Australia, the USSR and China, but in line with the policy of energy supply diversification since the 1970's, Japan has introduced new suppliers from North and South America to achieve a roughly equal balance of suppliers and to avoid overdependence on any one supplier.

The diversification policy has also spurred on the development of LNG (Liquified Natural Gas) supplies. From a figure of around 3 per cent in 1973, the share of LNG in Japan's energy consumption has increased to around 11 per cent

¹²⁴Gerald L. Curtis, 'The Tyumen oil development project', p. 150.

¹²⁵Richard J. Samuels, *The Business of the Japanese State*, p. 217.

¹²⁶For these issues, see L. A. McMahon and Stuart Harris, 'Coal development: issues for Japan and Australia', pp. 71-96; Jonathan P. Stern, 'Natural gas: the perfect answer to energy diversification', pp. 97-118; Ian Smart, 'Nuclear resources: the dilemma of interdependence', pp. 119-144, in Akao Nobuyuki (ed.), *Japan's Economic Security*.

¹²⁷Asahi Shimbun, *The Japan Almanac 1996*, p. 163.

in 1993.¹²⁸ The distance of Japan from gas fields means that it is reliant upon sea shipments of LNG for its supplies.¹²⁹ Since the early 1980's Indonesia has been the largest supplier, but Japanese companies have also developed supplies in Brunei and Malaysia, and most recently with Algeria and Australia.¹³⁰

The most ambitious energy diversification project has been the expansion by Japanese electricity utilities and the Japanese government of nuclear power generation. In 1973, nuclear power only accounted for 0.6 per cent of energy supplies, but this share increased to around 9 per cent by 1988, 11 per cent by 1993, and long term plans exist to increase nuclear generation to 16.7 per cent of energy supplies by 2010.¹³¹ Japan is 100 per cent dependent upon imports for the supply of uranium ore, but this supply has been diversified away from reliance on the US, Canada and Australia in the 1970's to new suppliers in Africa and new projects in Australia. As for preprocessing of nuclear fuels, during the 1970's Japan was again dependent upon the US, but contracts with British Nuclear Fuels (BNFL) and France's COGEMA have also diversified this aspect of energy generation.

Energy and Japan's direct and indirect economic power

The overall picture of Japan's energy sector is, then, one of foreign dependence but also the search for diversification. The policy of diversification has been followed by the Japanese state and private Japanese electricity utilities as a reaction to the Oil Shocks of the 1970's. In 1973, OPEC cut production by 25 per cent and identified Japan as an unfriendly state, so threatening its oil supplies.¹³² In 1979 and following the Iranian revolution, the majors unilaterally decided to end oil supplies

¹²⁸Asahi Shimbun, *The Japan Almanac 1996*, p. 163.

¹²⁹J. M. W. Chapman, R. Drifte and I. T. M. Gow, *Japan's Quest for Comprehensive Security*, London, Frances Pinter, 1983, p. 198.

¹³⁰Shigen Enerugichôhen, *Sekiyû Daisan Enerugi Ichiran*, p. 210.

¹³¹Shigen Enerugichôhen, *Sekiyû Daisan Enerugi Ichiran*, p. 80; Asahi Shimbun, *The Japan Almanac 1996*, p. 163.

¹³²Valerie Yorke, 'Oil, the Middle East and Japan's search for security', p. 52.

to Japan and to prioritise the US market.¹³³ Moreover, in 1977 due to fears of nuclear proliferation brought about by Indian nuclear tests, Canada, with US support, reduced its exports of uranium. These incidents made Japanese policy-makers even more aware of Japan's vulnerability to energy producing countries and corporations, and to the US's caprice in putting its interests above those of its allies. Therefore, during the 1970's, an even stronger link was made in the minds of policy-makers between security and the component of economic power of energy. The conceptualisation of energy as a matter of security was shown first by MITI's 1978 report calling for Japan to reduce its energy dependency.¹³⁴ This was then followed by the 1980 Comprehensive Security Report's proposals to tackle Japan's energy security problems by promoting friendly ties with resource producing countries, by reducing energy consumption, and by moves to deal more on a government to government basis or producer to producer basis for energy supplies instead of exclusively through the majors.¹³⁵ On the actual level of policy implementation, MITI and the MOFA were already engaged in programmes to promote closer relations with the oil producing states. Immediately after the First Oil Shock, the then MITI minister, Nakasone Yasuhiro, made a trip to the Middle East to improve relations and to secure concessions for Japan from OPEC. This resource diplomacy, or *shigen gaikō*, was a recognition of the connection between energy and security. Indeed, energy security has been one of the few issues in which Japan has been forced to break from the US stance and to forge its own independent policy. Furthermore, thinking in theoretical terms, Japanese policy in the area of energy can be seen as the use of economic power to insulate the state from costs imposed externally, and, specifically, the marshalling of direct economic power in defence of the state.

¹³³J. M. W. Chapman, R. Drifte and I. T. M. Gow, *Japan's Quest for Comprehensive Security*, p. 199.

¹³⁴J. M. W. Chapman, R. Drifte and I. T. M. Gow, *Japan's Quest for Comprehensive Security*, p. 189.

¹³⁵Sōgōanzenhoshō Gurūpu, *Sōgōanzenhoshō Senryaku*, Tōkyō, Ōkurashō Insatsukyoku, 1980, p. 70.

That the Japanese state with the guidance of the bureaucracy has succeeded to some degree in managing its direct economic power in the field of energy security is shown by the gradual fulfillment of its energy diversification policies. As has already been seen, Japan has managed to reduce its dependence on oil and oil supplies from the Middle East by around one third since the 1970's. Japan also has reduced its reliance on OAEPC (Organisation of Arab Petroleum Exporting Countries) from around 82 per cent of oil supplies in 1972 to 72 per cent by 1980.¹³⁶ While this still leaves Japan dependent on Middle Eastern oil, there has been a steady move away from dependence on oil supplies from this region, and this is a significant achievement given Japan's total reliance upon imported oil.

MITI, with some input from the MOFA, can claim credit for this policy, and it is clear that the state has exercised some direct power in its attempts to reorganise the domestic oil industry and to diversify oil supplies away from the majors. Passed in 1962, The Petroleum Industry Law gave MITI a supervisory role in the oil industry through its powers of licensing refinery production and finance, and allowed the Japanese state to claw back from the foreign majors and private Japanese firms a measure of control.¹³⁷ This was followed by the establishment in 1967 of the 100 per cent government owned Petroleum Development Corporation (JPDC), renamed the Japan National Oil Corporation (JNOC) in 1978. The JPDC was designed to function not as an oil company, but more as an institution to provide funds to private Japanese firms. The overall objective of the JPDC was to promote the activities of Japanese firms in exploration, and to encourage the growth of more vertically integrated domestic oil companies. MITI stated at the time of the JPDC's establishment that the aim was for Japan to eventually acquire 30 per cent of its oil from 'autonomous sources'.¹³⁸ Between 1967 and 1982, the JPDC initiated 79 projects, 70 of which were overseas; and in 1973 alone the Japanese government

¹³⁶J. M. W. Chapman, R. Drifte and I. T. M. Gow, *Japan's Quest for Comprehensive Security*, p. 199.

¹³⁷Raymond Vernon, *Two Hungry Giants: The United States and Japan in the Quest for Oil and Ores*, Cambridge, Massachusetts: Harvard University Press, 1983, p. 94.

¹³⁸Gerald L. Curtis, 'The Tyumen oil development project', p. 151.

financial institutions provided US\$100 million of loans form various projects.¹³⁹ MITI policy met with some success in expanding the number of Japanese oil companies, as with the foundation in 1973 of the Fuyô Petroleum Development Corporation and the Sumitomo Petroleum Corporation.¹⁴⁰ MITI also managed through mergers--such as that between the three companies which formed Kyôdô Oil in 1965--to rationalise the highly fragmented oil industry.¹⁴¹ In addition, MITI's influence in reshaping the Japanese oil industry and oil energy security can also be seen in its increase of the national stockpile of oil for emergency conditions. In 1971 oil stockpiles amounted to only 36 days' worth of supply, but by 1980 this had increased to 100 days' worth.¹⁴² In the mid-1980's around 50 per cent of the JNOC budget was devoted to stockpiling.¹⁴³

However, despite the seeming success of MITI in the area of oil supply diversification, it is also apparent that there have been limits to MITI's direct control of the oil industry. These limitations to MITI's direct economic power have been imposed by those same factors that have hampered state control over other components of economic power. As Samuels points out, despite knowledge of the pressing need for the control of oil as a strategic commodity, there is no private or state sector corporation in Japan which is integrated through all stages of production.¹⁴⁴ Thus, Japan lacks the type of state-owned major player in the oil industry that other developed nations have had or continue to possess. In Japan there is no corporation which fulfills the functions of France's CFR, Italy's ENI or Britain's formerly state-owned BP. The JNOC, as already described, relied on private enterprises for making investment, but has only an 8 per cent share in Japanese oil exploration, and lacks vertical integration.

¹³⁹Raymond Vernon, *Two Hungry Giants*, p. 210; Richard J. Samuels, *The Business of the Japanese State*, p. 210.

¹⁴⁰Gerald L. Curtis, 'The Tyumen oil development project', p. 151.

¹⁴¹Richard J. Samuels, *The Business of the Japanese State*, p. 207.

¹⁴²J. M. W. Chapman, R. Drifte and I. T. M. Gow, *Japan's Quest for Comprehensive Security*, p. 193.

¹⁴³Richard J. Samuels, *The Business of the Japanese State*, p. 214.

¹⁴⁴Richard J. Samuels, *The Business of the Japanese State*, p. 49.

MITI's failure to create an equivalent Japanese major, or *wasei meijâ*, has not been due to a lack of ambition or effort, but rather to a refusal by private firms to follow state policies which they see as contrary to their commercial interests. Hence, in 1961, a MITI sponsored Round Table Report laid out plans for a state-owned company similar to Italy's ENI, which was to be involved in the import, refining and distribution of oil. But this plan was opposed by private Japanese oil firms which feared competition from the state, and by the electricity utilities which saw a state-owned oil company as possibly interfering in their ability to purchase the cheapest available oil. Before the passage of the Petroleum Industry Law in 1962, the Keidanren forced MITI to omit from the law a provision for the establishment of a national oil corporation. MITI repeated its efforts to create a national oil corporation in 1963, 1964 and 1965, but was again defeated by opposition from private industry. The creation of the JPDC was made dependent upon the restriction of its activities to exploration and stockpiling; again the result of pressure from private industry. Samuels notes that it was not until 1981 that MITI finally gave up on its attempts to create a state-owned oil enterprise, with the admission that it would, 'respect the vitality of the private sector and progressively reduce and eliminate administrative intervention.'¹⁴⁵

The second impediment to extension of state control over the oil industry has been foreign pressure, and most particularly the bilateral relationship with the US. US majors took a large share of the Japanese market under SCAP, and this, in combination with the US's predominant position in the oil industry, led early on to the belief of figures such as George Kennan that Japan could be controlled through oil supplies.¹⁴⁶ Although the Oil Shocks of the 1970's showed that Japan was prepared to diverge from US policy to secure its own interests, Kennan's belief was perhaps borne out by the 1990-91 Gulf Crisis during which Japan was

¹⁴⁵Richard J. Samuels, *The Business of the Japanese State*, pp. 198-202, 204, 209, 217.

¹⁴⁶John Welfield, *An Empire in Eclipse: Japan in the Postwar American Alliance System*, London, Athlone, 1988, pp. 96-7; Laura E. Hein, *Fuelling Growth: The Energy Revolution and Economic Policy in Postwar Japan*, Cambridge, Massachusetts: Harvard University Press, 1990, p. 306.

brought into line with the US alliance because of the issue of oil supplies. The main restriction on Japanese state control of the oil industry brought about by the US alliance, however, has been in the areas of diversification of energy supplied during the Cold War. Curtis points out that despite the potential attractiveness of the Tyumen oil project in the USSR as a new source of supply for Japan, progress was blocked by US reluctance to see its oil firms involved in the project, and Japan's need to favour the US alliance over cooperation with the Cold War adversary of the USSR.¹⁴⁷

The picture that emerges of the oil industry is one of Japanese direct economic power which is capable of ensuring to some degree oil supplies in the event of economic cost imposed upon Japan. But at the same time, the ability of the state to control the domestic oil industry is limited, and Japan's relative weakness in the international oil industry argues that the state has not accrued sufficient direct or indirect power to influence the behaviour of other states by the imposition of costs.

The fragmented picture of control observed in the case of the oil industry is also found in the coal industry, the domestic electricity industry and nuclear power generation. The policy of diversification of supply has been applied to coal also, and has yielded results with new sources of supply brought in from China and Australia. However, the control of the domestic industry has been presented by Samuels as another example of the frustration of bureaucratic and state control by private industry. He notes the fact that unlike other industrialised nations, the coal industry in Japan has never been effectively rationalised or consolidated, nor have prices been centrally set. Indeed, Samuels states that 'the state has participated in the market only on the terms negotiated with and acceptable to other market players.'¹⁴⁸ Alliance ties with the US have also played a role in restricting diversification, with projects such as the development of the Yakutsk coal fields put on hold by the Soviet invasion of Afghanistan in 1979.

¹⁴⁷Gerald L. Curtis, 'The Tyumen oil development project', pp. 148, 168.

¹⁴⁸Richard J. Samuels, *The Business of the Japanese State*, p. 133.

Private business also has restricted bureaucratic state control in the domestic electricity industry. All electricity utilities in Japan are privately owned, the only exception to this being the state-owned and MITI controlled Electric Power Development Corporation (EPDC), which acts only as a generator of electricity and not as a supplier to end users. The Japanese government did secure control of electricity generation during World War II, but the power industry was broken up into private power companies by SCAP. Samuels comments that, 'The only unalloyed state initiative ever to succeed in restructuring the Japanese electric markets occurred under the extraordinary circumstances of foreign occupation.'¹⁴⁹ While MITI's influence has been pervasive in the electric industry through the provision of finance and its regulatory role, it has not been predominant, with many of the large electric utilities able to raise funds in foreign markets and becoming increasingly independent players. The pressures for deregulation of the power industry since the early 1990's are also likely to remove the industry further from the aegis of the state.

The nuclear power industry is one example of where the state has not been able to exert as great a control as it might have wished. Around 11 per cent of Japan's energy requirements are provided by nuclear power, and in 1987 alone the state provided the nuclear industry with 1.6 trillion yen in financial support. But according to Samuels, this provision of finance does not necessarily equate with strong state control. He shows that despite MITI's best efforts to gain firm control over the industry, the EPDC has been consistently cut out of new developments in the nuclear industry by the private utilities. The EPDC sought a new role in nuclear generation from the 1960's onwards as its original role of hydroelectric development began to be exhausted. MITI's efforts to provide the EPDC with the right to import light water and advanced thermal nuclear technology were opposed by the private utilities and the Science and Technology Agency (STA), leading to a 1982 compromise whereby the EPDC was allowed to construct one advanced

¹⁴⁹Richard J. Samuels, *The Business of the Japanese State*, p. 166.

thermal reactor in return for subsidising the construction costs of private sector reactors.¹⁵⁰ The state is still involved in nuclear energy generation and research, but the private electricity companies maintain their central position in the domestic industry and limit the state's freedom of action in this area. Moreover, added to the obstacles of private business limiting the control of the Japanese state over the nuclear industry, its long-term plans are also under pressure from pressure groups in the general public which object to what Michael Donnelly has called Japan's 'nuclear quest' on environmental grounds.¹⁵¹

The direct power that Japan has derived from the component of energy is varied. On the one hand, the Japanese state and, in particular, MITI, have implemented plans to improve Japan's energy security through the diversification of supply. This indicates that the state's bureaucracy has a measure of direct power when dealing with threats to security that disrupt the economy. However, the external projection of direct power is limited compared to other developed nations. Japan's ability to use the component of energy in a time of crisis to help resolve a dispute is perhaps limited by its weak control of resource extraction and supply, especially in the case of the key commodity of oil.

The indirect power of Japan in energy is hard to evaluate, but again may be limited by the generally weak structural position of Japan in world energy markets. Despite being a major consumer similar to the US, its low production of energy resources and dependence on other countries means that the ability to set the 'rules of the game' and establish the environment of action for others is doubtful. The one area, however, where Japan may acquire indirect power is in energy related technology and nuclear generation technology. Success in the development of alternative energy forms and environmentally clean energy could provide Japan with indirect power. This could be further strengthened by Japan's technical lead in nuclear generation if it succeeds in the development of a viable means of nuclear

¹⁵⁰Richard J. Samuels, *The Business of the Japanese State*, pp. 245-51.

¹⁵¹Michael W. Donnelly, 'Japan's nuclear energy quest' in Gerald L. Curtis (ed.), *Japan's Foreign Policy After the Cold War*, New York and London, M. E. Sharpe, 1993, pp. 191-6.

fusion. In addition, Japanese oil companies, although not dominant globally, have played an important role in joint ventures to developing the energy resources of neighbouring Asian countries such as China and Indonesia.¹⁵² The export to other energy-hungry countries in Asia of energy development and nuclear technologies created to Japanese standards would be an advance in interdependency and a significant form of indirect power.¹⁵³ Thus, the case study on Japan-North Korea relations in chapter five will devote attention to the ways in which Japan has, through the device of KEDO, used energy as a component of economic power in an attempt to halt North Korea's threatened proliferation of nuclear weapons and economic collapse.

COMMUNICATIONS, KNOWLEDGE AND JAPANESE POWER

Communications

As chapter two explained, states may acquire direct and indirect power due to their influence over the construction and running of transport and communication systems. It has been seen that it is easiest for states to acquire direct power over transport systems because they can exercise governmental powers to halt or allow the free passage of economic activity in their own territory. Japan is clearly no exception to this, and as an island state has demonstrated an ability since the Edo period to close its borders and to halt sea traffic. In the contemporary era it retains also the capacity to halt air traffic. However, at the same time as the Japanese state is able to use direct power to offer these types of negative sanctions, it is also clear that there are limitations to this power. As an island state, Japan cannot readily deny access to other countries without hurting its own economic well-being, and the absence of contiguous land borders and its isolated geographical position means

¹⁵²Robert Taylor, *Greater China and Japan: Prospects for an Economic Partnership in East Asia*, London, Routledge, 1996, pp. 66-68.

¹⁵³Kent E. Calder has argued, for instance, that Japan should take a leading role in promoting joint energy projects in Asia to avoid competition for increasingly scarce energy sources and to contribute to peace in the region. Kent E. Calder, 'Asia's empty gas tank', *Foreign Affairs*, vol. 75, no. 2, March-April 1996, pp. 66, 69.

that Japan's sealing of its borders may only have a limited impact on other countries' economic activity. In addition, the ability to use direct economic power to offer positive sanctions, such as the opening up of new transport routes, will necessarily be limited by Japan's geographical isolation. But, even allowing for the impact of geographical factors on the direct economic power to be derived from transport systems, it may be that Japan's further development as a hub for air transport with the construction of new international airports, such as Kansai International Airport, will make geographical barriers less of a factor. In turn, Japan's role as an air and sea entrepot to Asia will also provide it with a form of indirect economic power as it promotes integration between Asia and other regions. How far Japan can play this role, though, will be determined by competition with other regional transport centres, Singapore and Hong Kong being the most notable examples.

In the area of telecommunications and technology development Japan is a world leader alongside the US.¹⁵⁴ Again the provision of public goods telecommunications technologies to other states by Japan is likely to bring it both direct and indirect power benefits. Japanese telecommunications companies as yet do not seem to be global players, but the sheer size of companies such as NTT argues for a power potential, and Japan is the certainly predominant in the development of telecommunications technology in Asia.

Knowledge

The degree of indirect power derived by Japan from the flow of knowledge along physical transport and telecommunications systems is hard to evaluate; as is Japan's indirect power in other areas of the knowledge structure, such as culture and ideology. The US is traditionally thought to have been the state which derives the greatest indirect power and security benefits from cultural hegemony. Added to the

¹⁵⁴David C. Mowery, 'Japanese technology and global influence', in Danny Unger and Paul Blackburn (eds.), *Japan's Emerging Global Role*, Boulder, Colorado: Lynne Rienner, 1993, p. 188.

high degree of confidence in the spread of its own culture as promoting what are seen as the universal values of democracy, human rights, and liberal business practices, the US is also viewed as having an advantage over other states in the acquisition of 'soft power' due to its rapid development of communications systems like the Internet and the use of English to disseminate knowledge. In contrast, Japan has been less certain of the universal applicability of its culture in the post-War period, and has been seen to be held back in the spread of its cultural power by language barriers, and, when compared to the US, the slow adoption of new information technologies. All of this is probably true, and as Drifte points out, much of the state-sponsored Japanese cultural diplomacy has been devised as a 'damage limitation' exercise to insulate Japan from international criticism, rather than as a policy to seek to compete actively with other states for cultural recognition. But, as Drifte also points out, Japan has still managed to secure a measure of cultural power, partly due to the deliberate policies of the Japanese state, and partly due to the intrinsic attractiveness of Japanese culture which has been brought to other countries in conjunction with the development of Japanese economic power.¹⁵⁵ The growth of interest in Japanese lifestyles, and high and popular culture, has been strong in both the West and in Asia. The attraction of Japanese culture is shown by the fact that despite government efforts in South Korea to suppress Japanese comic books, literature and films, these symbols of Japanese culture have continued to be in demand.

Again some caution is needed in evaluating how culture translates into the type of power that will benefit Japanese security. Japan has certainly not achieved any type of Gramscian hegemony, and Drifte notes that:

imitating Japanese fashion or eating raw fish in restaurants does not make people automatically feel more positive towards Japan, as the high number of Japanese restaurants in Korea and the low level of appreciation of Japan may prove.¹⁵⁶

¹⁵⁵Reinhard Drifte, *Japan's Foreign Policy in the 1990's*, pp. 145-8.

¹⁵⁶Reinhard Drifte, *Japan's Foreign Policy in the 1990's*, p. 158.

But at the very least, the diffusion of Japanese culture to other countries in Asia suggests that Japan may have obtained a degree of 'soft' and thus indirect economic power, with some benefits for promoting a peaceful environment and security. As a result, it will be necessary to consider Japan's power in knowledge and communications when looking at the case study of Japan-North Korea economic and security relations in chapter five.

JAPANESE AID POWER

Aid has been shown in chapter two to be the component of economic power most easily manipulated by governments. In the case of Japan it is clear that aid has long had an overt political and security purpose. This strongly suggests that it will form a major part of Japan's direct economic power portfolio and any attempts that Japan may make as a global civilian to use economic power for security purposes. This next section will then consider the degree of direct economic power accruing to Japan from aid in preparation for testing the model of global civilian power against the security problem of North Korea in chapter five.

Size and scope of Japanese aid

The Japanese state has been a provider of aid on a modest scale to Asia since the 1950's, beginning with war reparations to such nations as the Philippines, Burma and Indonesia. This was then followed by participation in technical aid programmes under the Colombo Plan which Japan joined in 1954, and which is seen as the start of Japan's Official Assistance (ODA) activities. Japan made its first yen loan to India in 1958 as part of a World Bank consortium, and in 1961 Japan joined as a founding member the Development Assistance Group (DAC) of the OECD. The same year saw Japan's establishment of the Overseas Economic Cooperation Fund (OECF) formally under the control of the EPA. In 1963 Japan began two-step loans, in 1968 commodity loans, and in 1969 general grant aid. In 1974 the Japan

International Cooperation Agency (JICA) was established under the organisational control of the MOFA.¹⁵⁷

However, despite this history of ODA activities in Asia, it was not until the mid to late 1970's that Japan began to emerge as a major provider of aid on a global scale. This process was set in motion by the twin shocks of the Oil Crisis of 1973 and the anti-Japanese riots that accompanied Prime Minister Tanaka Kakuei's visit to Southeast Asia in 1974. The Oil Crisis resulted in immediate pledges of aid by Japan to the Middle East in order to help secure oil supplies. The anti-Japanese riots resulted in the 1977 'Fukuda Doctrine' enunciated by the then prime Minister Fukuda Takeo, which was designed to improve Japan-Southeast Asia relations, and which then lead to the 1978 First Medium Term Target of ODA plan. Under this plan, Japan pledged to double its annual aid disbursements, and between 1977 and 1980 Japanese ODA increased from an annual level of US\$1.42 billion to US\$3.30 billion.¹⁵⁸ The 1978 plan was then followed by Prime Minister Suzuki Zenkô's announcement in 1980 of the Second Medium Term Target of ODA. This plan was to run from 1981 to 1985 and aimed to double aid disbursements to a total of US\$21.4 billion during the five year period. Due to currency fluctuations the target was only 86.4 per cent fulfilled, but still Japan managed to disburse a total of US\$18.1 billion in aid, and by 1985 was providing US\$3.80 billion annually. The Third Medium Term Target of ODA unveiled in 1985 proposed to double again Japanese aid, to a total of US\$40 billion between 1986 and 1992. The strength of the yen made this target highly achievable, and in 1987 the target date for doubling was brought forward to 1990. The aim was for a total disbursement in 1990 of

¹⁵⁷Robert M. Orr, *The Emergence of Japan's Foreign Aid Power*, New York, Columbia University Press, 1990, pp. 53-4; Susan Pharr, 'Japanese aid in the new world order', in Craig G. Garby and Mary Brown Bullock (eds.), *Japan: A New Kind of Superpower?*, p. 160; Inada Jûji, 'Taigai enjô', in Aruga Tadashi *et al.* (eds.), *Kôza Kokusai Seiji 4: Nihon no Gaikô*, p. 183.

¹⁵⁸For details of this plan: Igarashi Takeshi, *Nihon no ODA to Kokusai Chitsujun*, Tôkyô, Nihon Kokusai Mondai Kenkyûjo, 1990, p. 239; Dennis T. Yasutomo, *The Manner of Giving: Strategic Aid and Japanese Foreign Policy*, Lexington, Massachusetts/Toronto: Lexington Books, 1986, pp. 2-3; David Arase, *Buying Power: The Political Economy of Japan's Foreign Aid*, Boulder, Colorado: Lynne Rienner, 1995, p. 69.

US\$7.6 billion, but actual result exceeded this, reaching US\$9.6 billion.¹⁵⁹ The 1988 Fourth Medium Target of ODA plan followed Prime Minister Takeshita Noboru's 'International Cooperation Initiative' announced in the same year, which set out to increase ODA disbursements to a total of US\$50 billion between 1988 and 1992. Again, fluctuations in the value of the yen made complete fulfillment of the plan difficult, but the target was nearly achieved by 1992, and in that year annual disbursements had risen to US\$11.5 billion.¹⁶⁰ In 1993, a further Fifth Medium Target Plan of ODA was announced, aiming to distribute a total of US\$70-75 billion in aid between 1993 and 1997.¹⁶¹

This expansion of Japanese aid since the 1970's through medium term plans was matched in the 1980's by the introduction of 'capital recycling plans'. These were designed to help alleviate Third World debt by 'recycling' accumulated private and public capital through the agency of the OECF, the Japan Export-Import Bank and multilateral institutions. In September 1986, the then Finance Minister, Miyazawa Kiichi, revealed a US\$10 billion 'recycling' package, which included a ¥60 billion to the Japan Fund in the World Bank; a US\$2.6 billion contribution to the World Bank soft loans facility; a US\$1.3 billion contribution to the Asian Development Bank (ADB); and a US\$3.6 billion loan to the IMF. In May 1987, Prime Minister Nakasone Yasuhiro added a further US\$20 billion loan plan, with US\$8 billion earmarked in contributions to the World Bank, the ADB and the Inter-American Development Bank; US\$9 billion in loans through the OECF, the Japan Export-Import Bank, and through Japanese banks in cooperation with the World Bank and IMF. In addition, there were to be US\$3 billion of untied loans by the Japan Export-Import Bank and commercial banks.¹⁶²

¹⁵⁹Alan Rix, *Japan's Foreign Aid Challenge: Policy Reform and Aid Leadership*, London and New York, Routledge, 1993, p. 104.

¹⁶⁰Alan Rix, *Japan's Foreign Aid Challenge*, p. 238; Igarashi Takeshi, *Nihon no ODA to Kokusai Chitsujun*, pp. 240-1; Ministry of Foreign Affairs, *Japan's ODA 1991*, Tôkyô, Association for the Promotion of International Cooperation, 1992, pp. 24-7.

¹⁶¹Ministry of Foreign Affairs, *Japan's ODA 1994*, Tôkyô, Association for the Promotion of International Cooperation, 1995, pp. 251-3.

¹⁶²Igarashi Takeshi, *Nihon no ODA to Kokusai Chitsujun*, p. 241-2; Arase, *Buying Power.*, p. 128.

Table 9: Annual Japanese ODA disbursement totals (US\$: million)

Year	Amount	% increase	% GNP
1961	221	52.4	0.20
1962	168	-23.9	0.15
1963	140	-16.6	0.20
1964	116	-17.1	0.15
1965	244	110.3	0.28
1966	285	16.8	0.28
1967	391	37.2	0.32
1968	356	-8.9	0.25
1969	436	22.5	0.26
1970	458	5.0	0.23
1971	511	11.6	0.23
1972	611	19.6	0.21
1973	1,011	65.5	0.25
1974	1,126	11.4	0.25
1975	1,148	1.9	0.23
1976	1,105	-3.7	0.20
1977	1,424	28.9	0.21
1978	2,215	55.5	0.23
1979	2,638	19.1	0.26
1980	3,304	25.3	0.31
1981	3,171	4.0	0.27
1982	3,023	4.7	0.28
1983	3,761	24.4	0.32
1984	4,319	14.8	0.34
1985	3,797	-12.1	0.29
1986	5,634	48.4	0.29
1987	7,454	32.3	0.31
1988	9,134	22.5	0.32
1989	8,965	-1.9	0.31
1990	9,069	1.2	0.31
1991	10,952	20.8	0.32
1992	11,151	1.8	0.30
1993	11,259	1.0	0.26
1994	13,239	18.1	0.29
1995	13,854	4.6	0.29

Sources: Alan Rix, *Japan's Economic Aid: Policy Making and Politics*, London, Croom Helm, 1980, p. 32; Ministry of Foreign Affairs, *Japan's ODA 1991*, p. 62; *Japan's ODA 1994*, p. 18, Tôkyô, Association for the Promotion of International Cooperation, 1991, 1994; Ministry of Foreign Affairs, *Waga Kuni no Seifu Kaihatsu Enjo ODA Hakusho 1995-96*, Tôkyô, Kokusai Kyôryoku Suishin Kyôkai, 1995, pp. 7, 21.

In July 1987, Prime Minister Uno Sôsuke set out a further US\$65 billion recycling package to run from 1987 to 1992. This comprised US\$23.5 billion in contributions by the Japan Export-Import Bank; US\$12.5 billion of loans by the OECF; and US\$29 billion of outlays and loans by private banks and the Japanese government to the World Bank and the IMF. Alan Rix reports that as of 1990, the Japan Export-Import Bank and the OECF had committed or spent 60-70 per cent and 93 per cent of their targets respectively.¹⁶³

¹⁶³ Alan Rix, *Japan's Foreign Aid Challenge*, p. 122.

The first and most obvious point concerning changes in Japanese aid in the period after the mid-1970's, is the huge expansion in its quantity. Annual disbursements of aid were raised from US\$1.42 billion in 1977 to US\$11.26 billion in 1993. The result of this was that by 1989 Japan had surpassed the US to become the world's leading donor of aid. The US regained the top position in the DAC ranking in 1990, but Japan again became top donor in 1991, and has remained so since.¹⁶⁴ Moreover, Japan has not sought to inflate its aid figures by including disbursements traditionally regarded as outside the definition of ODA, whereas the US, for instance, included US\$1.8 billion of military debt forgiveness within its ODA totals in 1991.¹⁶⁵ Japan would also seem to have some capacity to increase further its lead in the ODA totals as it still only donates 0.2 per cent of GNP to ODA, compared to the DAC average of 0.29 per cent, and Japan's ODA contribution in 1993 of US\$89.6 per capita ranks at number 18 out of the DAC countries.¹⁶⁶

Japan is likely to consolidate further its hold on the number one ranking in ODA contributions, and the pride of the MOFA in Japan's aid achievements is shown by its 1994 ODA report's proclamation of Japan's move from 'recipient to top donor.' The rise in the quantity of Japanese aid has also meant that Japan has now acquired the image of an ODA great power (*Enjo Taikoku*) capable of wielding direct economic power.

To some extent this impression of direct power derived from the sheer quantity of Japanese aid has been reinforced by the quality of Japanese aid. In the past, Japan has often been criticised for what is seen as the low quality of its aid and an overemphasis upon aid to recipients intended to benefit Japan's own commercial interests and economic power. Japan is seen to have avoided grant aid, which carries no obligation for repayment, in favour of tied aid on loans and aid with a grant element which carries an obligation to buy goods and services from Japan as

¹⁶⁴Ministry of Foreign Affairs, *Japan's ODA 1994*, p. 28.

¹⁶⁵Susan Pharr, 'Japanese aid in the new world order', p. 162.

¹⁶⁶Ministry of Foreign Affairs, *Japan's ODA 1994*, p. 28.

the donor country.¹⁶⁷ The share of outright grants in Japan's total ODA in 1993 was comparatively low at 42.6 per cent, ranking Japan as number 20 out of the 22 DAC countries, with a DAC average of 77.5 per cent. Also the grant element within ODA disbursement was low at 77.6 per cent, compared with a DAC average of 89.9 per cent, ranking Japan again as number 20 out of 22.¹⁶⁸

With regard to tied aid there has been a marked improvement in Japan's performance compared to other developed nations. In 1972 only 28.3 per cent of total ODA (including grants and loans) was untied at the commitment stage, but by 1991 this figure had risen to 83.3 per cent.¹⁶⁹ Since 1989, Japan has been able to claim that 100 per cent of loans are untied, compared with the US figure of 80.7 per cent in 1988.¹⁷⁰ But critics of Japanese aid policy point out that while loans are *de jure* untied, they are still in *de facto* terms tied. Japan's reliance on making ODA on a 'request basis' (*yôsei shugi*) from recipient countries means that Japanese companies have tended in practice to have a large role in promoting aid projects to the recipient country and in preparing the project for presentation to the relevant Japanese aid agency.¹⁷¹ This close involvement in the initiation of aid projects by Japanese corporations has often resulted in their being awarded the aid contract, thus effectively tying aid to the purchase of Japanese goods and services. However, as Rix points out, the greater transparency in the bidding process has reduced the share of Japanese contracts in loan projects from 67 per cent in 1986 to 27 per cent in 1991.¹⁷² Grant aid remains partly tied because the contractor and travel services must be Japanese, but goods and construction services can be handled by non-Japanese companies.

Japanese ODA has also changed its geographical spread since the 1970's. In 1963, 98.7 per cent of Japanese aid was directed to Asia (with around 93.0 per cent

¹⁶⁷Alan Rix, *Japan's Foreign Aid Challenge*, p. 108.

¹⁶⁸Ministry of Foreign Affairs, *Japan's ODA 1994*, pp. 14-5.

¹⁶⁹Ministry of Foreign Affairs, *Japan's ODA 1994*, p. 28.

¹⁷⁰Alan Rix, *Japan's Foreign Aid Challenge*, p. 109; Ministry of Foreign Affairs, *Japan's ODA 1994*, p. 153.

¹⁷¹Susan Pharr, 'Japanese aid in the new world order', pp. 171-2.

¹⁷²Alan Rix, *Japan's Foreign Aid Challenge*, p. 110.

of this figure in Southeast Asia).¹⁷³ This figure was still high at 98.2 per cent in 1970, but by the 1980's had been reduced to around 60 per cent, and 57.3 per cent by 1993. The main concentration of Japanese aid has remained in Asia, but other areas have also begun to receive substantial shares of Japan's ODA. The Middle East increased its share in the mid-1970's, reaching a high of 12.4 per cent of Japan's ODA in 1977. It then fell back to around two to three per cent in the mid-1980's, climbed to 20 per cent immediately after the Gulf War in 1991, but once again fell back, to around six to eight per cent in the 1990's. Africa's share of Japanese ODA has increased between the 1970's and 1990's, has fluctuated between 9 and 19 per cent, and stood at 11.8 per cent in 1994. Likewise, Latin America's share has risen to around 10 per cent, and was 8.6 per cent in 1994.¹⁷⁴

Despite some diversification of Japan's aid distribution by geographical region, the concentration, as has been seen, has remained in Asia, and within this region Japanese aid has favoured traditionally Southeast Asia. Indonesia has frequently been the top recipient of Japanese aid, and Thailand, the Philippines and Malaysia have consistently appeared in the list of top ten recipients of Japanese aid. Japan provided its first yen loan to China in 1979, and by 1982 China had displaced Indonesia as the number one recipient of Japanese aid. Indonesia regained its top position in the late 1980's and early 1990's, but in 1993 and 1994 China once again displaced Indonesia. China and Indonesia together accounted for over 25 per cent of Japan's total ODA commitments in 1988.

Japan's heavy concentration upon the distribution of aid to certain states, and Asian states in particular, has meant that Japan has become the top donor to them, and that they have become dependent on Japan for the majority of their aid. Table 10 illustrates the dependency of Asian state upon Japanese aid, and by 1992 Japan had become the top donor to 29 states worldwide, including China, Indonesia, the

¹⁷³Alan Rix, *Japan's Economic Aid: Policy Making and Politics*, London, Croon Helm, 1908, p. 34.

¹⁷⁴Igarashi Takeshi, *Nihon no ODA to Kokusai Chitsujun*, pp. 251-54; Ministry of Foreign Affairs, *Japan's ODA 1994*, p. 18.

Philippines, Malaysia, Thailand, Laos, Vietnam, India, Sri Lanka, Jordan, Nigeria and Kenya. Furthermore, the New Asian Industries Development (AID) Plan and the ASEAN-Japan Development Fund, launched in 1987 and 1988 respectively, promise to further increase the dependency of Asian countries upon Japan by the use of its aid to integrate vertically the economies of the region into Japan's own and to establish a regional division of labour.¹⁷⁵

Table 10: Trends in regional distribution of Japan's bilateral ODA (per cent)

	Asia	Middle East	Africa	Latin America	Other regions
1973	88.0	1.4	2.4	4.6	3.6
1975	75.0	10.6	6.9	5.6	1.9
1980	70.5	10.4	11.4	6.0	1.7
1985	67.7	7.9	9.9	6.2	8.3
1990	59.3	10.2	11.4	8.1	11.0
1991	51.0	20.4	10.3	9.5	8.8
1992	65.1	4.3	10.1	9.1	11.4
1993	59.5	6.4	11.8	9.0	13.3
1994	57.3	7.8	11.8	8.6	14.6
1995	54.4	6.8	12.6	10.8	15.3

Sources: Dennis T. Yasutomo, *The Manner of Giving: Strategic Aid and Japanese Foreign Policy*, Lexington, Massachusetts: Lexington Books, 1986, p. 83; Ministry of Foreign Affairs, *Japan's ODA 1991*, p. 62; *Japan's ODA 1994*, pp. 18, 108, Tôkyô: Association for the Promotion of International Cooperation, 1991, 1994; Ministry of Foreign Affairs, *Waga Kuni no Seifu Kaihatsu Enjo ODA Hakusho 1995-96*, Tôkyô, Kokusai Kyôryoku Suishin Kyôkai, 1995, pp. 9, 27.

Japanese aid and multilateral institutions

Japan's expansion of aid at the bilateral level would seem, then, to have increased the size and geographical spread of its influence, and this has also been matched by Japan's aid efforts through multilateral institutions. Japan is a member of a number of multilateral institutions concerned with the provision of aid. Amongst these institutions are the World Bank and IMF (joined by Japan in 1952); the Inter-American Development Bank (IADB) (joined 1976); the African Development Fund (joined 1983); the ADB (joined 1966); and various UN agencies (joined 1956). In 1986-87, Japan was the largest contributor out of the DAC countries to multilateral aid institutions, providing around 21.6 per cent of their budget, compared to 21.1

¹⁷⁵David Arase, *Buying Power*, p. 203.

per cent for the US.¹⁷⁶ Japan, as already described, has also used its capital recycling plans to channel funds into multilateral institutions, with US\$8 billion for the World Bank, IADB and ADB in 1987, and US\$29 billion for the World Bank and IMF in 1989. In the case of the World Bank, though, Japan's financial contributions do not appear to be commensurate with greater influence in the institution's ODA decision-making process. Japan's voting share, although it has been upgraded, has remained lower than that of the US. Japan does not possess a veto right similar to the US, and Japanese companies are said to receive only 1 per cent of the contracts given out by the World Bank. As for the UN, Japan in 1995 was the second largest contributor to the UN's budget after the US at around 14 per cent. But the total share of Japan's ODA to UN agencies is lower than the US, Germany, France and Russia, signalling for one observer a lower level of influence in the UN compared to other developed nations.¹⁷⁷

On the other hand, Japan's influence in the ADB has been seen as much greater, even to the extent that some commentators in the past have viewed the ADB as a tool of Japanese economic policy used to 'cripple' those Asian economies in competition with Japan.¹⁷⁸ Japan has clearly been an influential participant in the ADB since being involved in its foundation in 1966. At this time, Japan pledged to provide a third of the ADB's funds, but in practice has contributed nearly half of its funds, as in 1989 and 1993 when Japan's share of ADB funds was 47 per cent and 50 per cent respectively.¹⁷⁹ Japan also has created its own special fund within the ADB since 1980 to recycle US\$100 million of capital.¹⁸⁰ In the case of the ADB, monetary contributions have been matched by a more equal share for Japan of influence over the aid decision making process. In 1977, Japan received 16.7 per

¹⁷⁶Robert M. Orr Jr., *The Emergence of Japan's Foreign Aid Power*, p. 99.

¹⁷⁷Robert M. Orr Jr., *The Emergence of Japan's Foreign Aid Power*, p. 100.

¹⁷⁸Jon Halliday and Gavin McCormack, *Japanese Imperialism Today: Coprosperity in Greater East Asia*, New York and London, Monthly Review Press, 1973, p. 50.

¹⁷⁹Ming Wan, 'Japan and the Asian Development Bank', *Pacific Affairs*, vol. 68, no. 4, Winter 1995-96, p. 513.

¹⁸⁰Dennis T. Yasutomo, 'Japan and the Asian Development Bank: multilateral aid policy in transition', in Bruce M. Koppel and Robert M. Orr Jr. (eds.), *Japan's Foreign Aid: Power and Policy in a New Era*, Boulder, Colorado, Westview Press, 1993, p. 310; Michael Haas, 'Asian Development Bank', *International Organization*, vol. 28, no. 2, Spring 1974, pp. 281-96.

cent of the voting rights in the ADB with this figure falling to 13.5 per cent by the end of 1993. But Japan still remains the biggest individual voter ahead of the US. In addition, since its foundation the ADB president has always been Japanese; nominated by the Japanese government and usually a former bureaucrat.¹⁸¹ A large number of the ADB's personnel are Japanese nationals, many of which are former members of the MOF and the BOJ or seconded from the Japan Export-Import Bank, the OECF and JICA. In 1989, around 10 per cent of the ADB's staff of 600 were Japanese, with the US supplying a comparable figure.¹⁸² Japan is also seen as becoming increasingly assertive in the ADB in its dealings with the US, and Dennis Yasutomo notes that despite the ADB's charter, 'MDB's (multilateral development banks) are in truth, political institutions with explicit or implicit political agendas.'¹⁸³ Consequently, while the ADB may not be quite as firmly under the influence of the Japanese state as some have argued, Ming Wan states that Japan has come to exercise 'silent' but acknowledged leadership, and Yasutomo contends that the ADB can, 'serve as a foreign policy tool in the pursuit of Japanese diplomatic interests.'¹⁸⁴

In terms of most quantifiable indicators Japan's aid power seems to be very considerable. The increase in the quantity of Japanese aid has placed it above the US for the first time in a ranking of power. The quality of Japanese aid is also suggestive of a dependency power relationship between Japan and the recipients of its ODA. Japanese aid on the bilateral level and multilateral levels is strong especially in Asia. Given the existence of this raw aid power, the question is, has Japan been able to convert this aid into direct economic power and use it effectively in support of its security policy? The next task is to examine Japan's aid policy and the history of its connection with security policy.

¹⁸¹Alan Rix, *Japan's Economic Aid*, pp. 128-9.

¹⁸²Dennis T. Yasutomo, 'Japan and the Asian Development Bank', pp. 318, 320, 322.

¹⁸³Dennis T. Yasutomo, 'Japan and the Asian Development Bank', p. 316.

¹⁸⁴Ming Wan, 'Japan and the Asian Development Bank', p. 519; Dennis T. Yasutomo, 'Japan and the Asian Development Bank', p. 318.

Japanese aid policy and direct economic power

Scholarship on Japanese ODA has disagreed over the extent to which Japanese ODA has been used for commercial as opposed to political gains. From the early 1950's until the mid-1970's, Japan's ODA was viewed predominantly as a means of pursuing economic growth, with only limited attention to political considerations. Hasegawa Sukehiro writing in the 1970's, for instance, acknowledged the use of ODA to ensure Japanese international ascendancy and national interests or *kokueki*. Hence, aid could be viewed as a tool to smooth relations between states, but still the chief form of *kokueki* promotion was seen as national economic development and aid was not overtly political.¹⁸⁵ By the 1980's, and following a shift in Japanese government policy, scholars such as Yasutomo began to identify a political and diplomatic motivation behind Japan's aid. This type of view has persisted to varying degrees into the 1990's, but has been challenged most recently by David Arase who argues that the main emphasis of Japanese aid remains economic and that the heyday of aid as a political tool has passed. For Arase, Japanese ODA is more an integral part of Japan's economic rather than diplomatic policy.¹⁸⁶

The academic debate has not been helped by the lack on the part of the Japanese government of a clearly expressed aid philosophy. Yasutomo has pointed to the vagueness of the conceptual link in official Japanese thought between aid and security in the 1980's.¹⁸⁷ Alan Rix notes that even though the 1992 ODA Charter, or *ODA Taikô*, includes security related guidelines on aid policy, the connection is still far from clear cut.¹⁸⁸ However, at the same time, it is arguable that despite the problem of the lack of a clear aid philosophy, it is something of a false argument to make a distinction between aid as economic policy and aid as security policy. One of the overall aims of this dissertation is to point out the often false division

¹⁸⁵Hasegawa Sukehiro, *Japanese Foreign Aid and Practice*, New York, Praeger, 1975, pp. 7, 144.

¹⁸⁶David Arase, *Buying Power*, pp. 6-7, 107-10, 209.

¹⁸⁷Dennis T. Yasutomo, *The Manner of Giving*, pp. 19-40.

¹⁸⁸Alan Rix, *Japan's Foreign Aid Challenge*, p. 37.

between economics and security, and to assert that the two are often inextricably related. Arase's arguments perhaps miss the point. For whether or not the aid is intended for commercial or diplomatic ends, in the final outcome the provision of aid and the economic change that it may bring about are likely to have effects upon security. As Yasutomo indicates, in practice most aid is 'mixed' in nature, and is initiated for a variety of motives.¹⁸⁹ Indeed the Japanese MOFA made this clear in 1981 when it stated that:

Japan's ODA is intended to help the developing countries in the self-help efforts for economic development, in pursuit of the people's welfare. We believe such assistance is conducive to enhanced political, economic, and social resiliency of the developing countries, and in the long run contributes to world peace and stability.¹⁹⁰

Indeed, there is considerable evidence to suggest that Japan has utilised aid in the service of security policy either in an overt or more subtle fashion. This policy can be divided into four stages of development since the 1960's.

The first stage can be described as the use by the Japanese state of aid in order to underpin the general strategy of the US in North and Southeast Asia in the mid and late 1960's. The Vietnam War highlighted the limitations of US power and compelled successive US administrations to seek assistance from Japan for those states that the US saw as essential to stability in the region. In response to US pressure, Japan provided ¥54 billion in aid to Taiwan in 1965, and US\$300 million in grant aid and US\$200 million worth of yen aid to South Korea in 1967.¹⁹¹ Following the Johnson-Satō communiqué of 1967, the Japanese Prime Minister Satō Eisaku pledged ODA in order to 'contribute to regional peace and security.'¹⁹² In 1969, the Nixon-Satō communiqué reiterated plans to provide aid to South Korea, Taiwan and Southeast Asia. The 1973 Nixon-Tanaka communiqué

¹⁸⁹Dennis T. Yasutomo, *The Manner of Giving*, p. 115.

¹⁹⁰Cited in: Dennis T. Yasutomo, *The Manner of Giving*, p. 1.

¹⁹¹Robert M. Orr Jr., *The Emergence of Japan's Foreign Aid Power*, p. 109.

¹⁹²Arase, *Buying Power*, p. 55.

committed Japan to increase ODA to Indo-China, and especially South Vietnam and Laos, in order to support the US's strategy in the region.¹⁹³

The second stage of the development of the use aid for security purposes was in support of Japan's 'resource diplomacy' in the mid-1970's, and for the improvement of relations with Southeast Asia following the anti-Japanese riots of 1974. Hence, in December 1973, Prime Minister Tanaka despatched a mission to the Middle East with promises of a US\$3 billion aid package, with US\$1 billion of aid for both Iran and Iraq.¹⁹⁴ The 1977 Fukuda Doctrine pledged US\$1 billion in assistance for ASEAN and produced subsequently the First Medium Target of ODA plan.¹⁹⁵

The third stage came in the late 1970's and early 1980's and had been termed 'strategic aid' by Yasutomo. This term was not one used by the MOFA and other ministries, but in this period aid acquired a more openly strategic nature in the rhetoric of the Japanese government and in its practical application.¹⁹⁶ The deteriorating security situation brought about by the invasion of Cambodia by Vietnam in 1978 and of Afghanistan by the Soviet Union in 1979, increased US pressure on Japan for greater burden sharing, or *katagawari*, in security matters. In 1983 the US Commission on Security and Economic Assistance recognised Japanese aid as a contribution to security, and the increasing attachment on a conceptual level of a security function to aid in some policy-making circles was shown by the 1980 Comprehensive Security Report. This urged Japan to expand its ODA to around 0.26 per cent of GNP and accepted its uses as a diplomatic tool for non-military purposes.¹⁹⁷ However, as Yasutomo demonstrates, even though aid was accepted as connected to security, it was not integrated fully into the other

¹⁹³Robert M. Orr Jr., *The Emergence of Japan's Foreign Aid Power*, p. 110.

¹⁹⁴Robert M. Orr Jr., 'Japanese foreign aid: over a barrel in the Middle East', in Bruce M. Koppel and Robert M. Orr Jr. (eds.), *Japan's Foreign Aid*, p. 292.

¹⁹⁵Dennis T. Yasutomo, 'Why aid? Japan as an "aid great power"', *Pacific Affairs*, vol. 162, no. 4, Winter 1989-90, p. 493.

¹⁹⁶Inada Jûji, 'Japan's aid diplomacy: economic, political or strategic?' in Kathleen Newland (ed.), *The International Relations of Japan*, London, Macmillan, 1990, p. 104.

¹⁹⁷David Arase, *Buying Power*, p. 218; Sôgôanzenhoshô Gurûpu, *Sôgôanzenhoshô Senryaku*, p. 41.

elements of security policy, and was still seen within the context of the North-South problem.¹⁹⁸

Nevertheless, the increasingly open acceptance of aid as a component of security policy was demonstrated by Prime Minister Ôhira Masayoshi's declaration that Japanese ODA would be provided to 'countries bordering area of conflict' (*funsô shûhenkoku*), and his successor, Suzuki Zenkô's 1980 statement that ODA would be used for the 'maintenance of peace and stability in the world', with particular emphasis upon the Persian Gulf, Southeast Asia and China. As a result, Japan increased its ODA to two of the US's main regional allies: Thailand and South Korea. Japan also increased aid to Turkey and Pakistan, close to the Afghanistan conflict; to Jamaica, perceived by the US as an important bulwark against the spread of communism in the Caribbean; and to the countries close to the Horn of Africa (Somalia, Sudan, Kenya and Oman), in order to check Soviet influence in the region. Furthermore, after 1979 Japan began to provide aid to China, with the design of strengthening the position of pragmatists in their modernisation programme and of bolstering China's position against the USSR.¹⁹⁹

This period also saw the increased willingness of the Japanese state to use aid as a negative sanction of direct economic power. Japan ceased aid to Afghanistan after the Soviet invasion in 1979, and in 1978 froze loan aid to Vietnam, continuing to extend only humanitarian aid (although loan aid was resumed in 1992).²⁰⁰ These bilateral sanctions were also enforced at the multilateral level. The ADB also cut off aid to Vietnam and Cambodia in 1978, and to China after the Tiananmen Square incident in 1989.²⁰¹

The fourth stage in the development of Japan's aid policy in connection with security began in the early 1990's, and can be viewed as the articulation of a more coherent aid philosophy, often with specific diplomatic and foreign policy

¹⁹⁸Dennis T. Yasutomo, *The Manner of Giving*, p. 28.

¹⁹⁹Inada Jûji, 'Japan's aid diplomacy', pp. 103, 108.

²⁰⁰Inada Jûji, 'Stick or carrot? Japanese aid policy and Vietnam', in Bruce M. Koppel and Robert M. Orr Jr. (eds.), *Japan's Foreign Aid*, p. 115.

²⁰¹Dennis T. Yasutomo, 'Japan and the Asian Development Bank', p. 316.

objectives put forward by the MOFA. By 1994, the MOFA, at least, has come to describe ODA as, 'one of the most important instruments of foreign policy and international contribution,' available to Japan as, 'a peace loving nation.'²⁰² Yasutomo notes that aid has become increasingly accepted as a tool of non-military power, and Inada Jûichi sees aid as a new tool for the diplomacy of peace.²⁰³

The April 1991 aid guidelines announced by the then Prime Minister Kaifu Toshiki were in part a reaction to the failure of Japan's disbursement of aid during the Gulf War to achieve recognition as a genuine contribution to the multinational and Western alliance. The guidelines attempted to set out a clearer link between Japanese aid and security. Included within the guidelines were provisions that would make it necessary to consider prior to the disbursement of aid: 1) trends in the military spending and the import and export of weapons by the recipient country; 2) trends in the development and production of nuclear weapons and other weapons of mass destruction; 3) the efforts made by the recipient country towards democratisation and market-oriented economic reform; and, 4) human rights issues in the recipient country.²⁰⁴ Measures designed to prohibit the diversion of aid by a recipient country had already been set out in an April 1978 resolution of the Foreign Affairs Committee of the House of Representatives, which stated that it was necessary 'to take all precautions not to carry out external economic assistance of a sort that will be applied toward military use or that will promote international conflict.'²⁰⁵ But the 1991 guidelines were a more specific statement of aid principles and these were strengthened by their incorporation into the June 1992 ODA charter.

In the late 1980's and early 1990's, the principles of the ODA Charter have been put into practice to some degree by the Japanese government. Following the military coup in Myanmar in 1988, the Japanese government cut off (although

²⁰²Dennis T. Yasutomo, *The Manner of Giving*, p. 49.

²⁰³Dennis T. Yasutomo, 'Why aid?', p. 502; Inada, 'Japan's aid diplomacy', p. 118.

²⁰⁴Susan Pharr, 'Japanese aid in the new world order', p. 169; Alan Rix, *Japan's Foreign Aid Challenge*, p. 34.

²⁰⁵Inada Jûji, 'Japan's aid diplomacy', p. 104.

somewhat reluctantly) all aid except debt relief contributions to that state.²⁰⁶ Japan also ceased aid to Haiti after the 1991 coup, and applied pressure on Pakistan over its nuclear programme and accession to the NPT (Non-Proliferation Treaty) by intimating that it might link aid to progress on this issue.²⁰⁷ In 1995, Japan also cut off its limited grant aid to China in protest at its decision to continue with nuclear and missile testing. Moreover, as the case study in chapter five will demonstrate, since 1990 the Japanese government has withheld from North Korea potentially billions of dollars in aid involved in normalisation negotiations due to concerns about that country's nuclear programme.

However, Japan can still be seen as reluctant to use aid as a negative sanction. Critics note that Japan took little action against Indonesia over its known violation of human rights in East Timor in 1991.²⁰⁸ Moreover, the cut off of grant aid to China in 1995 still leaves Japan's large loan programme to China intact, and Japan suspended its yen loans to China for only one year following Tiananmen Square.²⁰⁹ Commercial considerations and the problem of energy dependency are part of the explanation for Japan's reluctance to use the 'stick' of aid in its foreign and security policy. But a parallel explanation may also be that Japanese policy-makers hold the view that the forging of economic links between Japan and other states, and a policy of economic engagement, especially in the case of China, is the best guarantee of security and of moderating other states' behaviour. Hence, the direct economic power of aid is used more to provide positive sanctions and to establish the conditions for indirect economic power and the deepening of mutual dependency.

²⁰⁶David I. Steinberg, 'Japan's economic assistance to Burma: aid in the tarenagashi manner', in Bruce M. Koppel and Robert M. Orr Jr. (eds.), *Japan's Foreign Aid*, pp. 151-52.

²⁰⁷Danny Unger, 'Japan's capital exports: moulding East Asia', in Danny Unger and Paul Blackburn (eds.), *Japan's Emerging Global Role*, p. 158; Alan Rix, *Japan's Foreign Aid Challenge*, pp. 36-7.

²⁰⁸For a general background to Japan's aid policy towards Indonesia: Jeff Kingston, 'Bolstering the new order: Japan's ODA relationship with Indonesia', in Bruce M. Koppel and Robert M. Orr Jr. (eds.), *Japan's Foreign Aid*, pp. 41-62.

²⁰⁹Zhao Quansheng, 'Japan's aid diplomacy with China', in Koppel and Robert M. Orr Jr. (eds.), *Japan's Foreign Aid*, pp. 163-87.

The overall picture of the development of Japanese aid policy shows the use of aid to fulfill a number of functions for security. Aid has been used by the Japanese state as an instrument to improve the general security environment and so to prevent the occurrence of conflict. But in the event of a conflict, aid has also been used as a negative sanction to impose costs on states that are considered threats to security as in the case of Vietnam, Cambodia and China. Aid also serves as a positive sanction to remove the sources of conflict, as in the case of Indonesia, Thailand, and again China. Aid can, therefore, be seen as a multipurpose tool of direct economic power, and the Japanese state's most developed component of economic power both in conceptual and practical terms. Combined with the quantity, quality, and global geographical spread of Japanese aid, it should be possible to argue that aid provides great direct economic power and the basis for a viable security policy.

However, as with all the other components of economic power, the problems of the use of aid by the Japan state need to be investigated, and evidence suggests that it is subject to many of the same limitations, namely: bureaucratic conflict and the input of the politicians in the policy-making process, and the role of non-state actors in the policy-making process including business interests, foreign pressure and private interest groups.

Quite clearly aid policy is not exempted from the types of bureaucratic conflict seen in the areas of production, finance, trade and energy. The bureaucracy is seen as having a large measure of autonomy in designing aid policy, but within the bureaucracy there are tensions which distort the policy-making process, and which then limit the state's flexibility of control over aid. The aid policy-making process is highly fragmented and potentially spread across the jurisdictions of sixteen separate ministries. In most cases, though, the responsibility for aid policy is devolved to the three ministries of the MOFA, the MOF and MITI, and to one agency, the EPA.²¹⁰ Coordination of overall policy is made through periodic meetings between the ministries, and the implementation of the actual aid programmes is carried out

²¹⁰David Arase, *Buying Power*, p. 171.

by the agencies (*tokushû hôjin*) of JICA and the OECF. JICA is formally under the control of the MOFA, and in general deals with social infrastructure and grant aid projects. The OECF is formally under the control of the MOF and deals with economic infrastructure projects and loan aid. In reality, the MOFA does not possess the necessary expertise to manage all of JICA's projects with its own personnel and so has become reliant upon *shukkô* or transferees from other ministries. Moreover, the JICA budget is controlled by the MOF, with the end result that JICA is cut up between the jurisdictions of different ministries. In the case of the OECF, the budget is again controlled by the MOF, as are its key official positions.²¹¹

The effect of the splitting of jurisdictions and responsibilities between ministries is magnified further by the different interests of the ministries and competition between them for influence. ODA and defence were the two items in government budgets in the 1980's that continued to increase, and this led ministries not usually associated with aid programmes to try to secure a share of the expanding aid budget. One example of this was the Ministry of Health and Welfare's creation in 1989 of an Office of International Cooperation on Health Matters.²¹² In many instances, the aid philosophy of the various ministries also differs, making coordination between them even more difficult. Since the 1960's, the MOFA, through its Economic Cooperation Bureau, has advocated the importance of aid for international cooperation. This stance has been conditioned by the MOFA's position as the 'window' on aid requests from both recipients states and the US. Hence, since the 1970's the MOFA has taken the lead in redefining aid in terms of security policy.

In contrast to this, the economic bureaucracy, represented by the MOF and MITI, have tended to emphasise the potential benefits of the provision of aid to the Japanese economy. But there is a division of opinion between these ministries,

²¹¹David Arase, *Buying Power*, pp. 179, 183, 188.

²¹²Robert M. Orr Jr., *The Emergence of Japan's Foreign Aid Power*, p. 21.

with the MOF seeking cost effectiveness in aid programmes and opposed to aid to what it sees as already developed states such as South Korea and Singapore. MITI, on the other hand, has preferred to stress the importance of securing overseas markets and has favoured tied aid because of the potential benefits for Japanese industry.²¹³

The result of this institutional and conceptual split in aid policy between ministries has been to frustrate efforts to create a central aid agency. Proposals since the 1960's for such an agency have been defeated successively, and the creation of JICA generated considerable interministerial conflict only settled by the intervention of the LDP.²¹⁴ There have been moves to reform the aid system since the early 1990's, but Arase argues that the division of jurisdictions means that it is nearly impossible to change the process of aid administration.²¹⁵ As Alan Rix has pointed out since the 1970's, Japan's system of aid has been highly decentralised, cumbersome and uncoordinated compared to that of other developed nations, and thus limits 'Japan's ability to undertake international initiatives.'²¹⁶

Two other limiting factors over the control of aid that need to be noted are the role of politicians and the role of big business. As has been seen, the bureaucracy has secured a large measure of autonomy in the aid process, but it is also the case that politicians have often played a key role in breaking the impasse between the ministries over aid policy.²¹⁷ The LDP's PARC and to some extent the opposition parties have also been seen as playing a role in overseeing the administration of aid and correcting possible bureaucratic excesses. The policy of *yōseishugi* also means that corporations have an important role in affecting the direction of aid, and groups such as the Keidanren are known to have had a decisive influence over the policy-

²¹³Robert M. Orr Jr., *The Emergence of Japan's Foreign Aid Power*, pp. 31-6, Dennis T. Yasutomo, *The Manner of Giving*, pp. 68-9.

²¹⁴David Arase, *Buying Power*, p. 161; Alan Rix, *Japan's Foreign Aid*, pp. 49-77.

²¹⁵David Arase, *Buying Power*, p. 171.

²¹⁶Alan Rix, *Japanese Foreign Aid Policy: Domestic Constraints and Recent Changes*, Australia-Japan Economic Relations Research Project Research Paper no. 58, The Australian National University, Canberra, 1979, pp. 9-10; 'Japan's foreign aid policy: a capacity for leadership?', *Pacific Affairs*, vol. 62, no. 4, Winter 1989-90, p. 463.

²¹⁷Alan Rix, *Japan's Foreign Aid*, pp. 49-77.

making process. However, the feeling of some commentators such as Rix, though, is that as the transparency of the aid process increases, so will the influence of private companies upon it decline.

Foreign pressure has also been a key factor in shaping Japan's aid policy. US pressure on Japan has resulted in increases in aid to countries such as Vietnam and Cambodia in the 1960's, and to Turkey and Pakistan in the 1980's. Indeed, it is US pressure which has allowed the MOFA to move to an increasingly security and foreign policy oriented conception of aid in opposition to the other ministries, by using alliance obligations to legitimise strategic aid. Clearly, as in the case of aid to the Middle East in the 1970's and to China in the 1990's, Japan has also the ability to move more independently of the US, but in general the US relationship is likely to play a constraining role upon Japanese bilateral aid policy. On the multilateral level, Japan also has to consider foreign interests and US opinion. The US remains the most powerful actor in the majority of multilateral development banks, and even in the ADB the US has staff members equal to Japan, and considerable restraining influence. Moreover, Japan cannot act too independently within the ADB, or it risks provoking accusations by other Asian members of Japanese domination.

Added to these hindrances to Japanese direct power in aid are a set of other limits which look likely to become increasingly important in the 1990's. The first of these is the growing strength of public opinion concerned with ODA. Unlike many other developed nations, the Japanese public as yet does not seem to have encountered 'aid fatigue', and remains broadly supportive of increases in Japanese aid. In addition, the government has encouraged the growth of NGO's (Non-Government Organisations) to handle types of aid projects too small for its agencies to deal with, and has facilitated their funding by the establishment in 1991 of the International Volunteer Postal Savings Scheme. But the increasing awareness of aid policy by the public also brings new restrictions upon the freedom of the government to design ODA policy to suit its own needs. Rix contends that, 'Public pressure is encircling aid administrators on three fronts,' of heightened public

awareness, intense public scrutiny of problems in the aid process, and greater public involvement through NGO's.²¹⁸ Under these conditions, the Japanese state may find it even harder to conceptualise and implement an aid policy which emphasises security interests if this is seen to diverge from publicly accepted values of foreign policy in areas such as human rights.

A second emergent restriction on Japanese aid policy is the simple question of the existence of long term financial resources to fund this component of economic power. The expansion of Japan's ODA has been made possible by capital surpluses and the high value of the yen. However, currency fluctuations may make future aid programmes more difficult to plan and implement and the capital surpluses may be drying up. If Bill Emmott's predictions prove correct, the increased consumption levels in the Japanese economy will reduce funds for recycling and for aid programmes. The current recession and budget difficulties of the Japanese government may be a portend of things to come, and the 1993 level of ODA as 0.26 per cent of GNP may become harder to maintain or increase over the long term. In the 1990's the ODA budget has continued to increase, but at slower rates than in the previous decade. Financial hardship and budgetary constraints, then, could have a depleting effect upon this most important of the components of economic power.

The final question concerning the limits of Japanese aid power is its overall effectiveness. The dependency of a number of Asian nations on Japan suggests the acquisition of power and influence by Japan. But it is also apparent that there are limitations to Japan's hold over these states. China, for instance, seems willing to forgo Japanese aid if acceptance of it means that it has to alter its policies, and is capable of seeking aid from other sources. China's vulnerability to reductions and even increases of Japanese aid is questionable. Furthermore, even if Japan were to cut off aid to certain Asian countries this action may not have the desired political effects and would lose for Japan at a stroke the goodwill built up over time. Hence,

²¹⁸Alan Rix, *Japan's Foreign Aid Challenge*, p. 71.

this may explain Japan's reluctance to totally sever the aid relationship with Myanmar even though its government has continued to suppress the pro-democracy movement in ways that can be interpreted as contravening the *ODA Taikô*.

If aid cut-offs and negative sanctions are not necessarily effective, then offers of positive sanctions can also have undesirable effects. Japan's offer of US\$4 billion of aid to the front-line states of the Gulf States in 1990 bought comparatively little political influence or commercial advantages for Japanese companies. Hence, the size of an aid disbursement may be of little relevance in certain circumstances, such as after the outbreak of a major conflict, and have even less effect unless backed by long term plans for economic cooperation and development. In this sense, Japan's aid policy when intended to deepen interdependence may be more effective for security purposes than the simple use of aid as a short term positive or negative sanction. Aid needs to be used in conjunction with the other economic components of power to be most effective.

SUMMARY

This chapter, in preparation for the case study in chapters four to six, has applied to Japan the model of economic power first developed in chapter two in order to assess its credentials as a global civilian power. The chapter began by examining the policy-making system in Japan and concluded that the Japanese state is neither a unitary nor the sole actor in economic security. To discover the limits to the ability of the Japanese state to mobilise economic power and create a security policy based upon it, it is necessary to consider the role not only the state actors of the bureaucracy and political parties, but also their interaction with the business community and foreign pressures. Thus, this conclusion will help to explain the limits of Japan's role as a global civilian power when the case study of Japan-North Korea relations is researched in chapters five and six.

Examination of each of the components of Japanese economic power reveals that, whilst they suggest great 'raw' economic power, the extent to which they can

be shaped by the Japanese state to serve its security interests faces varying limitations. Conflict within the state between the bureaucracy and political parties in part accounts for these limitations, and a further sets of restraints is imposed by the penetration of the Japanese policy-making system by business and foreign actors. As a result, the type and extent of power that the Japanese state derives from each of the components of economic power differs, and Japan's 'power portfolio' as a global civilian power is summarised in Table 11.

Table 11: Japan's economic 'power portfolio' as a global civilian power

Component of economic power	Degree of indirect power accruing to Japan	Degree of direct power accruing to Japan
Production	High	Low
Finance	High	Medium
Trade	High	Medium
Energy	Medium	Medium
Communications	Medium	Medium
Aid	Medium	High

For some components, as in the case of aid, the level of direct power is high, for others, such as production, the level of direct power is low. Conversely, the low level of direct power derived from components such as production indicates the possibility of a high degree of indirect power accruing to the Japanese state with high correspondingly high benefits for security. For the state to tap into these security benefits it needs a form of alliance with big business, either explicitly by using the state's direct economic power from other components to further the indirect power accrued from the overseas expansion of Japanese FDI, or implicitly by creating the political conditions which allow Japanese FDI to flow outwards. Hence, the best way for the global civilian power to articulate its security policy is to ensure a complementary mix of direct and indirect power working across all the components of economic power.

This detailed investigation of Japan's economic power has now opened the way for the empirical testing of the capacity of Japan to act as a global civilian power when confronted by a specific security problem, and hence its contribution to post-

Cold War security based on economic power. The next chapter will begin the presentation of the dissertation case study concerned with Japan-North Korea security relations in the 1990's. It will set out to demonstrate that North Korea is the type of post-Cold War security problem that demands a solution involving economic power, and as such is one that offers the chance for Japan to act as a global civilian power.