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*WRM - two papers  
RM*AMERICAN ECONOMIC AND SECURITY INTERESTS  
IN JAPAN

**Mike M. Mochizuki**  
Senior Fellow  
The Brookings Institution

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For five decades, Japan's mercantile realism has treated economics and security as two sides of the same coin.<sup>1</sup> Economically, Japan protected its markets from foreign competition while taking advantage of U.S. markets to pursue an aggressive export growth strategy and acquiring American technology to move up the technological ladder. In terms of security, Japan relied upon America's defense commitment and provided U.S. access to bases on its territories in return. This arrangement obviated the need to spend huge sums on the military and facilitated Japan's re-entry into the international community. It even made the victims of Japanese aggression in East Asia more receptive to Japan's economic revival. Given America's interest in having Japan serve as the main bulwark against the spread of communism in East Asia, Japanese leaders shrewdly saw that the United States would tolerate bilateral asymmetries in market access so as to facilitate Japan's economic reconstruction.

As Japan moved to the economic forefront, its leaders responded in a piecemeal fashion to U.S. pressures and incrementally recalibrated the basic bilateral bargain in order to sustain it. In the economic sphere, Japan lowered tariffs, adopted voluntary export restraints, and accepted voluntary import expansion agreements. In the security sphere, it gradually built up and modernized its defense capabilities, participated in joint exercises, and increased its host-nation support for U.S. forces. Although economics and security were integrated in a comprehensive strategy, Japanese leaders usually tried to keep these two policy arenas separate when dealing with their American counterparts.<sup>2</sup> They did not want bilateral economic tensions to spill over to the security relationship. Therefore, Japanese negotiators would give in marginally at the eleventh hour to appease the Americans on the economic front. But these accommodations did not mean that Japan agreed to a wholesale opening of its economy and a shift away from its mercantilist orientation. The preservation of explicit and implicit social contracts at home as well as an interest in nurturing new technologies motivated Japanese resistance to America's

liberalizing agenda. American ambivalence about getting Japan to play a more prominent military role reinforced the mainstream Japanese view in favor of a minimalist defense policy that focused on homeland defense while relying on U.S. power projection and offensive capabilities. To what extent will Japan stick to this approach in the post-Cold War era?

### **The Economic Dimension of Japan's Foreign Policy**

During the last decade, the most significant change in Japan's economic orientation has been the shift to East Asia. Interest in East Asia grew dramatically after the yen's sharp appreciation in the wake of the 1985 Plaza Accord. At first, Japan's outward direct investments expanded in all directions: to the United States in order to get around possible trade barriers and hedge against exchange rate fluctuations, to Europe in order to get in before the formation of a unified European market, and to East Asia in order to take advantage of low labor costs. But by the 1990s, Japan's foreign direct investments (FDI) became increasingly focused on East Asia (see Table 1). Compared to the United States and Europe, East Asian markets were expanding much more rapidly; and the return on investment was generally greater. In 1994, Japan's FDI in East Asia surpassed that in North America for manufacturing. Its two-way trade with East Asia now far exceeds that with North America, and East Asia has become a much larger outlet for Japanese merchandise exports than North America.

Ever since the early 1980s, Japanese business leaders have feared a "boomerang effect" whereby low-cost producers in East Asia's newly industrializing economies (NIEs) would outcompete Japanese firms in terms of price. The East Asian NIEs did challenge Japan in some sectors like steel, shipbuilding, consumer electronics, and semiconductors. But the negative impact on the Japanese economy has been much less than predicted. In most sectors, Japan moved ahead technologically and imported less advanced products

from East Asia. Rather than becoming an economic threat, East Asia's growth expanded business opportunities. Japan is not only East Asia's largest source of foreign economic assistance for infrastructure development, but also its biggest supplier of capital goods for industrial production. By replicating their *keiretsu* networks in the region, Japanese corporations have developed markets for their machinery and technologically advanced intermediate goods and components.

Instead of being hit by an East Asian boomerang, Japan has racked up significant trade surpluses with virtually all non-oil exporting East Asian countries. In 1995, its trade surplus with East Asia totaled \$71 billion. It would, however, be misleading to argue that Japan is using East Asia as primarily an export platform (see Figure 1). Japanese subsidiaries in East Asia sell more goods in local regional and Japanese markets than in the North American market, and Japan's imports from East Asia have indeed increased.

But here is the rub. Whereas Japanese subsidiaries in East Asia serve three markets (the local regional, the Japanese, and the North American), U.S. subsidiaries there tend to direct their products back to the United States and to some extent the local regional market, but have difficulty penetrating the Japanese market. Since Japanese corporate networks can in effect modulate sales to their home markets, Japan is better able to temper the dislocative effects of imports from East Asia than the United States. Moreover, Japan's trade surplus with many of the East Asian countries pressures these economies to export aggressively abroad in order to improve their balance of payments. The United States as the most open market is the easiest target for this export drive. Put differently, the difficulty in penetrating the Japanese market deflects East Asian exports to the United States.

Even with the leap-frogging by some East Asian competitors in some sectors (e.g. South Korean semiconductor manufacturers), East Asian development still follows a stratified pattern that approximates the famous (or infamous) flying-geese model. With the region's reliance on Japanese aid, investments and production technology, Japan's

position as the lead goose appears relatively secure. As the East Asian NIEs have moved up, Japan has turned its attention to new Asian economic frontiers like China, Vietnam, and even Burma while deepening its stake in the ASEAN Four.

China is now by far the largest destination of Japanese direct investments in East Asia (see Table 1). Despite the uncertainties in China and the poor state of Sino-Japanese relations, Japanese business remains bullish on China. China ranks as the most promising FDI destination in both the medium and long term (see Table 2). Compared to the United States, Japan's trade balance with China-Hong Kong is quite favorable. Although Japan had a trade deficit of about \$14 billion with China in 1995, it ran a surplus with Hong Kong of \$14.6 billion.

It remains to be seen to what extent Chinese entrepreneurial networks and Korean chaebol can challenge the Japanese in East Asia's dynamic regional economy. Overseas Chinese might rival, perhaps even surpass, Japanese conglomerates in some third markets; but Japanese firms will still dominate at home. Asia may not be in Japan's embrace, but Japan is well-positioned to reap the benefits of East Asian growth while moderating the negative social consequences of expanding imports from the region.

Paradoxically, despite Japan's favorable position in East Asia, many Japanese economists warn of chronic stagnation, even structural crisis.<sup>3</sup> Japan's excesses (overinvestment in productive capacity and reckless financial transactions) during the 1980s have contributed to the economic slowdown during the last four years. The need to maintain the "lifetime" employment system for at least "permanent" employees in large firms has hampered corporate restructuring to improve efficiency and increase productivity. Unemployment rates have crept up as recent graduates have had difficulty finding jobs. Fiscal stimulus packages coupled with low interest rates have been largely ineffectual in accelerating growth; and they have exacerbated the budget deficit problem.

The doomsayers argue that Japan must shift out of its developmental, catch-up mode. State regulations that once protected domestic markets and prevented "excessive

competition" now block the emergence of new businesses and obstruct a positive response to the information and telecommunications revolution. Employment practices that have given workers job security now prolong a mismatch between jobs and salaries and contribute to rising unemployment even in the context of a chronic labor shortage. And an educational system that effectively imparted critical skills is now seen as stifling the kind of creativity that is necessary if Japan wants to be at the scientific and technological forefront.

These problems might suggest that Americans need not worry that Japan will overtake the United States in terms of either productivity or technological prowess. But it would be misguided to underestimate yet again Japan's capacity to make the marginal adjustments necessary to get its economy back on track. The fundamentals are still sound: a highly skilled and motivated work force, plentiful savings for investments, low overhead costs either in terms of military expenditures or domestic strife, and an uncanny ability to absorb and transform new technologies into marketable products. Even without the drastic reforms advocated by some visionaries, I can imagine Japanese companies relaxing the seniority system and even incorporating an alternative job track that offers high remunerations at an early point in one's career in exchange for reduced employment security later on. I can also imagine Japan relaxing some regulations to permit resourceful domestic firms to take greater advantage of the telecommunications revolution, while still using industrial policy to promote innovation and competitiveness. But these changes can come without Japan discarding existing social contracts that have fostered social stability and without embracing the Thatcherite brand of neoconservative liberalism. Nor would it require that Japanese corporations revolutionize their business practices to open the floodgates for foreign imports. In short, Japan will renovate its system, not abandon it.

To hold down costs, Japanese firms can easily purchase inexpensive inputs from their subsidiaries in East Asia (and not from U.S. firms), while concentrating on higher value-added outputs at home. Although its weakness in basic research is Japan's Achilles



heel, it can seek to maintain its access to technological discoveries hatched in the United States and elsewhere. This is why despite the growth of intra-East Asian trade, the Japanese do not contemplate a self-contained East Asian economic sphere. The American market for Japanese exports may not be growing, but it is still large enough to matter. More importantly, to stay ahead of East Asian competitors, Japanese firms rightly see the need to keep a significant presence in the United States, the most technologically advanced country besides Japan. By competing in the U.S. market, the Japanese will be compelled to innovate. By investing in the United States, the Japanese can continue to tap America's technological fountain.

Therefore, even as Japan shifts its economic weight to East Asia, it wants to prevent a dividing line down the Pacific. Japan's flirtation with an East Asian Economic Caucus does not signal a desire to make another attempt at a Greater East Asian Co-prosperity Sphere. Rather it is an effort to cultivate regional coalitions in order to check American protectionism and aggressive liberalism and to counter NAFTA. That is why Japan stresses the notion of the "Asia-Pacific" more than "East Asia." In contrast to the United States, Japan's main objective in APEC is not trade and investment liberalization as such. Because Japan is already skillfully using its economic resources to negotiate its way into East Asian markets, the added benefits of free trade and investment rules are not all that great. Instead Japan's top priorities in APEC are (1) to keep the United States engaged in East Asia and opened to Japanese trade and investments, (2) to sustain East Asian development and growth, and (3) to integrate China into the regional economic system.

## The Security Dimension of Japanese Foreign Policy

Recent Japanese thinking about security policy manifests two somewhat contradictory trends. One is anxiety about a possible of weakening of U.S. military commitments in East Asia. This concern has led many Japanese to think about hedging against the possibility of American disengagement. The other trend relates to a desire to break out of the psychology of dependence on the United States. Although these tendencies together can yield different policy prescriptions, they do strike a common theme: the need to enhance autonomy (*jiritsu*). Despite the contrasting political dispositions of Ryutaro Hashimoto and Yukio Hatoyama, both trumpet the autonomy theme. In his first Diet policy address, Hashimoto emphasized his commitment to an "autonomous diplomacy" (*jiritsu gaiko*) — a concept that unnerved Foreign Ministry officials enough to cause them to translate the term into English as "proactive diplomacy." Hatoyama's recent article in *Bungei Shinju* also stresses his desire to make Japan less dependent on and less deferential to the United States.<sup>4</sup>

It would be wrong to interpret these sentiments as evidence that Japan is about to embark on an independent military strategy with a nuclear arsenal and extensive power projection and offensive capabilities. Too often American observers get obsessed with this bogeyman so that they can't imagine anything other than the status quo. But recent trends in Japan do imply an emerging consensus in favor of revising the strategic bargain with the United States. What is being debated now is not whether this bargain should be altered or whether Japan should terminate its strategic link to the United States, but rather in what manner and at what pace this bilateral bargain should be changed. This debate divides into two schools of thought.

One view holds that the U.S.-Japan alliance should be restructured so that Japan plays a more prominent military role for regional deterrence and crisis management (especially during a Korean contingency). Ultimately, this means that Japan would



recognize its ability to exercise the right of collective self-defense through either constitutional reinterpretation or revision. This "normalized" Japan would then expand its defense role beyond its territory and eventually be willing to fight shoulder-to-shoulder with Americans in defense of common interests. But as Japan expands its defense horizon, there is an expectation that the bilateral alliance would be based on greater equality. America would genuinely consult Japan, not merely inform it of decisions already made. And as Japan musters the will to say "yes" to collective defense missions, it would also gain the right to say "no" to the United States when it disagreed with U.S. policy. In short, the U.S.-Japan alliance would evolve toward something akin to U.S. alliances with the major West European powers. The only disagreement within this school of thought is the political methodology for effecting change: some advocate constitutional reinterpretation and/or revision sooner than later, while others support an incremental approach by working first within current constitutional constraints to do as much as possible in the collective defensive mode starting with logistical support in the rear.

The other school of thought believes that Japan should build upon its postwar constitution and its special status as a "pacifist state" (*heiwa kokka*) to promote cooperative security and preventive diplomacy. Japan should emphasize the development of fledgling multilateral dialogues such as the ASEAN Regional Forum and APEC to foster trust in the region. It should also take greater diplomatic initiative in dealing with pressing regional problems such as uncertainties in North Korea and China's rise. Although the Self-Defense Force would stick primarily to its mission of homeland defense, many embracing this dovish viewpoint recognize that Japan has an obligation to participate in United Nations collective security functions such as humanitarian missions, peacekeeping operations and even peace enforcement and peacemaking. Some even support participating in a U.N. international or regional standby force. In short, Japanese soldiers could ultimately fight side-by-side with Americans under the U.N. banner.

Despite significant differences between these two views, the divide is much narrower than that between "realist" conservatives and pacifists of old. What is striking is what unites them, rather than what divides them. Both schools want to harmonize the three documents that shape Japanese security policy: the constitution, the U.S.-Japan Security Treaty, and the United Nations charter. Both seek at some point a revised bilateral security pact either in form or in substance. Both assume and desire a reduced U.S. military presence in Japan, and both want to restrain increases in host-nation support contributions (*omoiyari yosan*). In other words, the current debate holds the possibility of generating a new strategic synthesis that garners broad public support.

Notwithstanding the desire to enhance autonomy, Tokyo is far from creating an East Asian strategic alternative to the United States. Although Japan's image in Southeast Asia has improved steadily, its relations with China and South Korea have worsened. Ironically, right-wing nationalists undermine their notions of a re-Asianized Japan by provoking neighboring states with their warped view of history and their crude handling of territorial disputes. Moreover, the spring 1996 tensions across the Taiwan straits steered the Hashimoto government to tighten the security relationship with the United States by committing itself publicly to a review of the U.S.-Japan Defense Cooperation guidelines. Japan, however, does not back a policy of containing China. Virtually everyone in the mainstream wants to integrate China into the regional and global community so that China has a greater stake in the existing international order. The differences are more about the means, than the ends. Again there are two views.

One emphasizes the construction of a balance of power system that can effectively check Chinese military expansion and irridentism.<sup>5</sup> Japan would play a role in East Asia analogous to Britain's in Europe for U.S. strategy. By embracing the right to collective self-defense, Japan would be able to cooperate with the United States to secure maritime safety in the region and to prevent China from threatening Taiwan. The two countries should also promote good relations with countries on China's periphery so that a coalition

would immediately emerge to counter China if it became aggressive. The other view stresses the security benefits of bringing China into international economic institutions such as the World Trade Organization and of deepening bilateral and multilateral exchanges with China on political and military issues.<sup>6</sup> The most effective way to constrain China's military buildup is to be more sensitive about China's own insecurities and take steps to mitigate these anxieties.

Despite their differences, these two Japanese views on how to deal with the rise of China have much in common. Both support China's economic development and deeper economic ties with China. Neither believe that holding China back economically so as to prevent it from becoming a threatening military power is a viable strategy. Both oppose using economic disincentives to change China's internal political behavior. Both reject the ambitious notion of some Americans of trying to remake China in America's liberal image or even to shape China's political evolution. China is much too large and proud a country to be responsive to such pressures. Although Chinese democratization may eventually make China a less threatening neighbor, outside powers should not force China to accept Western political values.<sup>7</sup> They should rather respect China's culture and recognize Beijing's interest in maintaining domestic stability.

Japanese leaders see no need to make a choice between tightening its alliance with the United States and reaching out to China diplomatically and economically. Although China vigorously condemns the "redefinition" of the U.S.-Japan alliance, the problem is not that this redefinition *inherently* contradicts a policy of engaging and integrating China. The problem lies in the fact that neither Washington nor Tokyo has taken adequate steps to improve relations with Beijing, to work out a modus vivendi on the Taiwan question, and to reassure China as they reinvigorate U.S.-Japan security arrangements. In international politics, much hinges on timing, sequence, and the manner of implementation.

### **Implications for U.S. Economic and Security Interests and Policy**

The United States has a continuing interest in improving its access to Japanese markets, in getting Japan to absorb more imports from the rest of East Asia, and in enlisting Japan's support for its commercial agenda in the region, including trade and investment liberalization and the protection of intellectual property rights. The declining trade deficit with Japan should not be grounds for complacency. The U.S. unemployment rate may be low; but what matters is not just aggregate employment, but also the type of the jobs being created and lost due to trade. Increasing exports of manufactured goods and services to Japan, still the world's second largest economy and the most formidable competitor, is critical to preserving and generating high quality, high paying jobs. The recent depreciation of the yen could again shift the terms of trade in Japan's favor. Greater Japanese absorption of East Asian products is still necessary to alleviate some of the pressures from East Asian exports while improving opportunities for U.S. subsidiaries in East Asia to export to Japan. Of course, American consumers benefit from inexpensive, good quality goods from both Japan and East Asia. But consumers must also have good paying and secure jobs in order to consume without going into debt. We should be careful not to make too stark a distinction between consumers and producers.

The United States has a security interest in maintaining access to critical bases in Japan in order to deter and respond to aggression against U.S. allies in the East Asia-Pacific region and in getting Japanese political-military support to deal with regional and international crises.<sup>8</sup> It is also in America's interest to gain Japan's cooperation to check the proliferation of nuclear weapons and other weapons of mass destruction, to prevent the emergence of a hostile hegemon or coalition in the region, and to maintain safe and secure maritime and air navigation. And America and Japan should nurture a regional environment that minimizes threats to Taiwan, military conflicts over territorial disputes, regional arms races, and the prospects of violence in the context of Korean reunification.

In working toward these objectives, the purpose of the bilateral alliance should not be to contain Japan. Rather the task is to encourage a more prominent Japanese political-military role in such a manner so that this evolution does not itself become a destabilizing factor.

U.S. economic and security interests with respect to Japan do intersect. At a time when the United States no longer faces an acute *direct military* threat from East Asia and when Americans are being asked to make hard choices for the purpose of domestic renewal, the political sustainability of U.S. security commitments to Japan will increasingly require that Japan not be seen to undermine U.S. economic interests. And to the extent that Japan produces more and more of the important inputs for U.S. defense systems, the United States has a security interest in maintaining stable supplies of such inputs and accessing Japanese dual-use technologies.

Will the pursuit of economic interests undermine security interests? An assertive policy on the economic front will inevitably strain political relations with Japan and may make Japanese leaders somewhat more reluctant to work with the United States on security-related issues. But given the absence of an attractive strategic alternative, Tokyo will not dilute or dismantle the security alliance because of Washington's pressures on trade. Japan will move away from its side of the bilateral strategic bargain not because of U.S. economic policies, but because of developments in the security arena, such as changes in the strategic environment, misgivings about U.S. defense policy, or irritations about the American military presence in Japan. Therefore, within reason, the United States should not hesitate about pursuing its economic interests vis à vis Japan for fear of damaging the security relationship.

But what about the reverse? Does the pursuit of U.S. security interests undermine its economic interests? Not necessarily. In defining our security interests in expansive terms, there is the danger that the United States will be saddled with much larger military expenditures as a percentage of GNP than other major powers.<sup>9</sup> The problem is not that



big defense budgets might crowd out business investments. Attractive businesses should be able to raise adequate funds in capital markets. But overblown military spending may make it difficult to sustain and develop the public programs necessary to ease the social adjustments to economic globalization. A choice in favor of the former would be unjust and tear America's social fabric and would even weaken U.S. political will for international engagement. The remedy is to restructure the military establishment and foreign deployments in order to enhance efficiency while continuing to perform the critical roles and missions. Japan can help this process by assuming more of the burden and responsibility for regional security.

If security and economics are inextricably linked, then should the United States explicitly leverage its defense commitments to Japan in order to extract Japanese concessions on economic issues? While theoretically enticing, I have serious doubts that Washington can execute such a strategy with the subtlety necessary to obtain the desired result. Moreover, given the current political climate, the Japanese are just as likely to accept the hollowing out of the security alliance as they are to submit to American economic pressures. Of course, although an explicit policy of linking security to trade may be unwise, U.S. leaders should always remind their Japanese counterparts that continuing American public support for the alliance depends greatly on whether bilateral economic relations are seen as fair and reciprocal. But in terms of actual policy, the best course is to pursue vigorously both economic and security interests on their own terms.

Much of existing Japanese barriers to trade are not explicit protectionist measures like tariffs and quotas, but rather collusive business practices and opaque arrangements between government agencies and the private sector. Consequently, while a rules-based approach to "level the playing field" may help in opening Japan, it is woefully inadequate. The Clinton Administration was therefore right in adopting a results-oriented approach of establishing objective criteria to measure progress. But it erred in not mobilizing the Japanese public who would benefit from America's market-opening efforts. Instead



Clinton officials, by being confused initially about their policy objectives and by neglecting to wage an effective campaign in Japan, turned the Japanese press and thereby most of the public against the United States. As Hosokawa and Hashimoto demonstrated, it became good politics to say "no" to the unreasonable Americans. The absurd effect was to let Japan become the champion of free trade, while the United States was denigrated for promoting managed trade. Although the Clinton Administration boasts of the twenty-two agreements it negotiated with Japan, the task of implementing them will be arduous especially since the two sides have divergent interpretations of many of them. Therefore, Washington and the U.S. diplomatic community in Japan must do a better job of informing the Japanese public of the benefits they would receive from America's liberalization efforts.

Pushing on the bilateral front doesn't preclude the use of multilateral mechanisms like the WTO. In fact, bilateral and multilateral efforts should be complementary; there is no need to choose one over the other.<sup>10</sup> But in light of the more strident nationalism of the new generation of Japanese bureaucrats, multilateral pressures will be more effective than bilateral ones. Europeans and Asians have their horror stories of how hard it is to crack the Japanese market. It is better to enlist them in our efforts to open up Japan than to let Japan form coalitions with them to resist us. Regarding trade with China, it would be better to enlist Japan's support in eliciting China's cooperation on such issues as intellectual property rights, rather than letting Japan watch on the sidelines while the United States leads the charge and takes all of the political heat.

On the security relationship, it is time to strike a new bargain. While the Pentagon has temporarily defused tensions on Okinawa by agreeing to return the Futenma Air Base in five to seven years, there is now widespread support in Japan for a gradual, but significant reduction of the U.S. military presence in Okinawa and elsewhere. Rather than stubbornly sticking to the 47,000 number for U.S. troops in Japan, the United States should adopt a roles and mission approach and determine what forward deployments are

absolutely critical for deterrence and crisis response in the context of changes in the strategic environment and technological capabilities. America's most important military assets in Japan are its air and naval power. Therefore, what should be done is to make the adjustments necessary to sustain Japan's willingness to host these assets. In return, Japan should take the appropriate steps to support U.S. military operations in regional contingencies and to facilitate rapid deployments into and out of Japan during an emergency. If such a bargain can be struck, then the Marine combat forces in Okinawa could be removed without harming the integrity of our military missions. This would go far in consolidating Japanese political support for the alliance well into the next century.

But the United States must also move beyond a strategy of military presence to develop an effective strategy to reduce tensions and prevent crises in the region. Keeping 100,000 troops in the East Asia-Pacific region is a poor surrogate for a comprehensive Asia policy. More realism is necessary in claims about what this military presence does. Does it really improve our access to East Asian markets, keep the East Asians from modernizing their militaries, and mediate conflicts among East Asian countries? Only after recognizing the limits of U.S. forward military deployments as a policy tool will U.S. officials see the urgency of integrating the economic, diplomatic, and military dimensions of foreign policy into a coherent East Asian security strategy. The "regional cooperation" section of the April 1996 U.S.-Japan Joint Declaration on Security did nothing more than list in general terms common regional security goals regarding Korea, China, Russia, and Southeast Asia. What is desperately needed now is a concrete, coordinated policy with Japan to achieve these objectives.

## Notes

<sup>1</sup>For an excellent explication of Japan's mercantile realism, see Eric Heginbotham and Richard J. Samuels, "Mercantile Realism and Japanese Foreign Policy," *MIT Japan Program Working Paper* 96-22 (1996).

<sup>2</sup>One exception was the purported linkage during the Nixon-Sato negotiations between Japanese concessions on textile trade and U.S. reversion of Okinawa to Japanese administration.

<sup>3</sup>These economists include Iwao Nakatani, Yukio Noguchi, and Haruo Shimada.

<sup>4</sup>Hatoyama Yukio, "Minshuto: Watashi no seiken koso," *Bungei Shunju*, November 1996, pp. 112-130.

<sup>5</sup>Hisahiko Okazaki, former Japanese ambassador to Thailand and Saudi Arabia, has been the most active proponent of this view.

<sup>6</sup>Kazuo Ogura, senior official in the Ministry of Foreign Affairs and former ambassador to Vietnam, articulates this view. See Ogura Kazuo, "21-seiki no Chugoku to Nihon gaiko," *Sekai*, May 1996, pp. 157-170.

<sup>7</sup>Hisahiko Okazaki favors Japanese support for America's human rights agenda vis à vis China not because he thinks the policy will work, but because he feels Japan needs to tow the line on this issue in order to maintain good relations with the United States.

<sup>8</sup>In the East Asia-Pacific region, the United States has formal alliances with Japan, the Republic of Korea, Australia, the Philippines, and Thailand.

<sup>9</sup>Lawrence J. Korb, "Our Overstuffed Armed Forces," *Foreign Affairs* Vol. 74, No. 6 (November/December 1995), pp. 22-34.

<sup>10</sup>Jeffrey E. Garten, "Is America Abandoning Multilateral Trade?" *Foreign Affairs* Vol. 74, No. 6 (November/December 1995), pp. 50-62.

Table 1  
Japan's Direct Investment in the Asian Countries

	FY1989		FY1990		FY1991		FY1992		FY1993		FY1994		FY1995		
	\$mil.	%share	\$mil.	%share	\$mil.	%share	\$mil.	%share	\$mil.	%share	\$mil.	%share	\$mil.	%share	YoY%
Asian NIEs	4,900	7.3	3,355	5.9	2,203	5.3	1,922	5.6	2,419	6.7	2,865	7.0	3,208	6.3	12.0
South Korea	606	0.9	284	0.5	260	0.6	225	0.7	245	0.7	400	1.0	445	0.9	11.3
Taiwan	494	0.7	446	0.8	405	1.0	292	0.9	292	0.8	278	0.7	451	0.9	62.3
Hong Kong	1,898	2.8	1,785	3.1	925	2.2	735	2.2	1,238	3.4	1,133	2.8	1,137	2.2	0.3
Singapore	1,902	2.8	840	1.5	613	1.5	670	2.0	644	1.8	1,054	2.6	1,175	2.3	11.4
ASEAN 4	2,782	4.1	3,242	5.7	3,083	7.4	3,197	9.4	2,398	6.7	3,888	9.5	4,102	8.1	5.5
Indonesia	631	0.9	1,105	1.9	1,193	2.9	1,676	4.9	813	2.3	1,759	4.3	1,591	3.1	-9.6
Malaysia	673	1.0	725	1.3	880	2.1	704	2.1	800	2.2	742	1.8	570	1.1	-23.1
Philippines	202	0.3	258	0.5	203	0.5	160	0.5	207	0.6	668	1.6	711	1.4	6.5
Thailand	1,276	1.9	1,154	2.0	807	1.9	657	1.9	578	1.6	719	1.8	1,229	2.4	71.0
China	438	0.6	349	0.6	579	1.4	1,070	3.1	1,691	4.7	2,565	6.2	4,439	8.7	73.0
NIEs+ASEAN4+China	8,120	12.0	6,946	12.2	5,865	14.1	6,189	18.1	6,508	18.1	9,318	22.7	11,748	23.1	26.1
U. S.	32,540	48.2	26,128	45.9	18,026	43.3	13,819	40.5	14,725	40.9	17,331	42.2	22,451	44.1	29.5
Europe	14,808	21.9	14,294	25.1	9,371	22.5	7,061	20.7	7,940	22.0	6,230	15.2	8,511	16.7	36.6
World Total	67,540	100.0	56,911	100.0	41,584	100.0	34,138	100.0	36,025	100.0	41,051	100.0	50,942	100.0	24.1

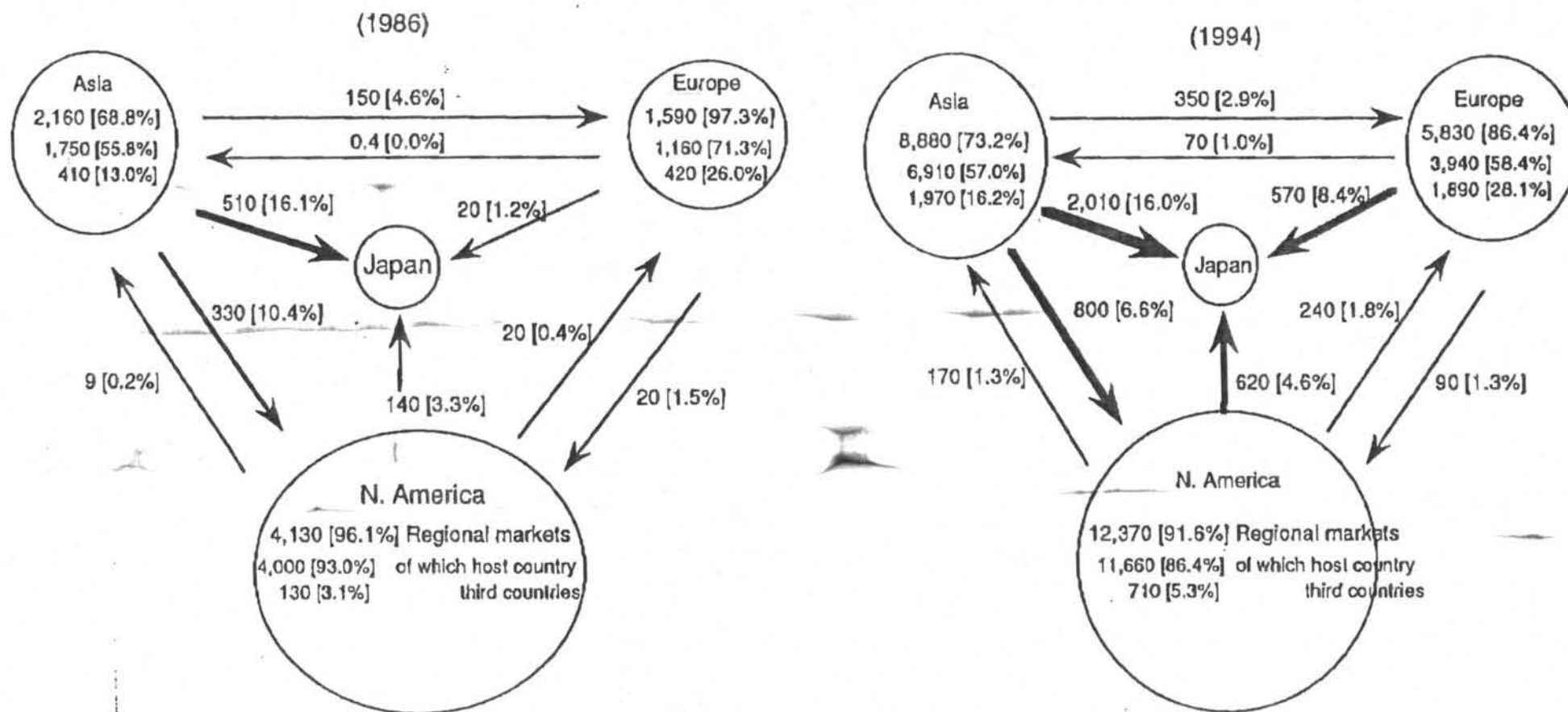
Note: Figures do not include reinvestment.

Source: Japanese Ministry of Finance.

Figure 1

## Sales by Region of Japanese Overseas Subsidiaries (Manufacturing)

(In billion yen)



Source: MITI, Kaigai Jigyo Katsudou Doukou Chosa (Survey of Overseas Business Activities), March 1996

Table 2

## Promising FDI Destinations for Japanese Companies

Medium term (Over the next 3 years)			Long term (Over the next 3-10 years)		
Ranking	Country	No. of companies (336)	Ranking	Country	No. of companies (274)
1	China	248	1	China	215
2	Thailand	122	2	Vietnam	113
3	Indonesia	110	3	India	98
4	U.S.	108	4	U.S.	83
5	Vietnam	95	5	Indonesia	66
6	Malaysia	73	6	Thailand	66
7	India	57	7	Myanmar	40
8	Philippines	52	8	Malaysia	35
9	Singapore	32	9	Philippines	31
10	U.K.	24	10	U.K.	16

Source: Export-Import Bank of Japan, *The Outlook of Japanese Foreign Direct Investment*, January 1996





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