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Prospects for future U.S.-Japan collaboration depend heavily on the directions in which Japan's economy and politics evolve over the next few years. Japan is not destined to look "more like us."¹ But powerful forces of change are visible, and both domestic and international pressures are propelling Japan toward acceptance of a more permeable market, more competitive politics, a more transparent regulatory system, a more cosmopolitan society, and a less U.S.-centered foreign policy. These forces are consequently altering Japan's competitive position in the world economy, its foreign policy priorities, its strategic options, and its attitudes toward its Asian neighbors and the United States.

A host of uncertainties remain: To what extent will structural adjustments in Japan's economy slow its growth and accelerate its internationalization? Will more competitive politics in Japan lead to greater direction of the bureaucracy by elected representatives of the people and hasten administration reform and economic deregulation? What kind of military power will Japan seek to develop in pursuit of a more active and ambitious diplomacy? Will Japan's growing interest in Asia alienate it from the United States? These are the questions this chapter attempts to answer.

1. The title of an interesting book about Japan and America by James Fallows, published by Houghton Mifflin in 1989.

Is the Sun Setting on the Japanese Economy?

The prolonged recession from which Japan is now emerging has temporarily shaken Japanese self-confidence, provoking renewed debate about its economic priorities and concealing elements of its residual strength. The protracted sluggishness of Japan's domestic economy, juxtaposed against the revival of the United States' fortunes, has reminded Americans that Japanese industrialists are not ten feet tall. Since 1991 Japan's economy has expanded at less than one-third the rate of the United States'. Its drive for the lead in many key technologies has temporarily stalled. Many investments made in the United States in the flush of Japan's success in the eighties are being liquidated at a considerable loss. The Tokyo stock market has lost more than half its value since 1989. And the reputation of Japan's economic bureaucracy for long-term strategic thinking has been damaged by its misjudgments regarding the seriousness of the current slump and its failure to find a means of escaping it. Meanwhile, South Korea, Taiwan, and other newly industrializing Asian economies are mounting an ever sterner challenge to Japan's superior manufacturing. The Japanese consequently feel squeezed, pressured simultaneously by the resilience of the USA's high-technology sector and the growing competitiveness of its East Asian neighbors. This is not exactly what Japanese officials and industrialists expected of the 1990s.

The Japanese economy has experienced its share of cyclical downturns in the postwar period. Yet with few exceptions, they fell into the category of "growth recessions," in which the GNP growth rate merely dipped down to 3 percent. This time, however, the recession met the technical requirements of U.S. economists (that is, two consecutive quarters of negative growth); it revealed structural as well as cyclical features; and it has proven uncommonly difficult to shake. Indeed, it has raised questions about the future efficacy of several notable features of Japan's brand of capitalism.

First, central elements of Japan's postwar management paradigm—for example, lifetime employment, seniority pay, cross-shareholding arrangements, and single-minded preoccupation with market share rather than profitability—have become heavy burdens on the cost structure of many Japanese companies (mainly large manufacturing firms). Readily affordable when the economy was growing 4 to 5 percent per year, as it did from 1970 to 1990, now, with growth stuck

below 1 percent since 1991, they are regarded by some observers as costly luxuries that many firms can ill afford. The Japanese press is laced with reports about efforts to downsize local firms, experiment with merit pay packages, liquidate shares in *keiretsu* firms, and augment companies' profitability even at the expense of market share. Such anecdotal evidence of change tends to overstate the scope of the adjustments to date. In fact, while costs have been cut in many resourceful ways, few employees have been fired, and few firms have undergone American-style restructuring. Of course, Japanese-style reengineering doesn't mean firing people; it entails searching for other ways of boosting productivity. But Japan now faces a vicious cycle. Massive trade surpluses have augmented the strength of the yen, diminishing the profitability of Japan's premier exporters. This increases pressure on jobs and lowers consumer spending at home while stimulating even greater efforts to find markets abroad, which in turn strengthens the yen still more. Hence the longer slow growth persists in Japan, the greater the pressure will be to modify structural features of the Japanese system—if not through deliberate industrial restructuring, then through the side effects of yen appreciation.

Second, there are growing doubts about the future viability of the catch-up capitalism that enabled Japan to enter the front ranks of the world's industrial powers. The strategy was simple and effective. The Japanese monitored promising technological and product developments around the world and then figured out how to commercialize them faster, better, and cheaper than anyone else. Now that Japan is the world's preeminent manufacturer, at the cutting edge of many technological developments, however, the strategy is obsolescent. Some of Japan's Asian neighbors have become skillful players in the catch-up game, licensing Japanese or U.S. technology and emulating their manufacturing techniques. The test for Japan is whether it can provide comparable leadership in scientific research and technological innovation—whether it can establish the architectural standards for key technologies of the future.

To date, the performance of Japanese industry has been disappointing. Its computer makers followed IBM down the mainframe track, missing in the process the higher-value-added opportunities in work stations, peer-to-peer computing, and software. Tokyo's efforts to stall Motorola's entry into Japan's cellular telephone market was a back-handed tribute to the U.S. firm's lead in developing cellular telephony.

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The Japanese government recently acknowledged that its industrial policy efforts to blaze the trail in HDTV research had come up short; American digital technology surpassed the performance of Japan's analog system. And Japanese companies are scrambling to find a niche for themselves in the lucrative market for multimedia products. These dispiriting setbacks have prompted anxiety among thoughtful Japanese that their educational system stifles originality and creativity and that their regulatory arrangements inhibit their country's ability to spin off the kinds of innovative and entrepreneurial start-up firms that flourish in the United States.

Third, the current recession has thrown into bold relief the disparity in prices between Japan and its overseas competitors. For decades, Japanese authorities have utilized a variety of means to discourage consumption—not least, by limiting imports of manufactured goods. This enabled Japanese manufacturers to run the high margins at home that were used to subsidize aggressive pricing abroad. As the yen has grown stronger, however, exports have become less profitable, and many Japanese firms need those higher domestic margins to cover shrinking profits or even losses in their export trade. This tends to make many firms even more reluctant to welcome foreign competition, even as it tempts them to utilize more imported materials and parts to cut costs.

As the yen has grown stronger, moreover, Japan's long-suffering consumers—plagued now by low wage settlements, meager bonuses, less overtime, and new uncertainties about job security—have become more attentive to these price differentials. Changes in the purchasing habits of consumers and the procurement policies of some companies have been among the results. This is evident in the proliferation of discount stores, the growing volume of catalog sales, and price deconstruction—the trendy term for declining prices—in the Japanese market.

The high yen is also prompting changes in the relations between Japanese manufacturers and their suppliers. Rising costs associated with the strong yen have forced most large firms to raise export prices, import more components, raise productivity, or move production facilities offshore. This increases the opportunities for foreign manufacturers to gain wider access to Japanese supply networks. Until recently, no Japanese automobile manufacturer purchased steel from non-Japanese sources. But reduced profit margins have forced both Mitsubishi and Honda to procure steel from Korea and to contemplate purchases from other foreign suppliers. Even a few leading politicians

have begun advocating measures to reduce the huge disparity between prices in Japan and overseas. During his stint as prime minister, Tsutomu Hata proposed that Japan pursue a “real income doubling plan” by cutting prices in half rather than by doubling the GNP. The bureaucracy threw cold water on the plan, which also evoked a tepid response from the business community.

Fourth, looming demographic changes herald new burdens on Japan’s public finances. Twenty-five years ago, citizens sixty-five years or older accounted for only 7 percent of the total population. In 1993 that figure was 13.5 percent; demographers expect it to rise to more than 17 percent by the year 2000 and to exceed 25 percent by 2020. That means that twenty-five years from now roughly a quarter of the Japanese people will be senior citizens, with more than 13 percent over 75 years of age. Thus Japan is rapidly becoming one of the world’s oldest societies. Its ratio of retirees to workers is growing ever more extreme. It seems likely that this will reduce the size of Japan’s labor force, retard its savings rate, and draw resources away from the manufacturing sector in order to permit heavier investments in health care, infrastructure, and various service industries.

These are formidable problems. They will challenge the resourcefulness of Japan’s political establishment, its bureaucratic elite, its business community, and its citizenry. Yet these difficulties, however daunting, are scarcely harbingers of Japan’s decline. The Japanese are never more purposeful than when coping with adversity. And in tackling such challenges, they possess many hidden strengths. Some of the problems, moreover, are exaggerated by both the Japanese and the U.S. press. A nation of worriers, the Japanese dwell on their shortcomings and play down their capabilities. Only an economy of unusual strength could amass a current account surplus of \$127 billion in 1994. Japan’s savings pool remains immense. According to a recent OECD report, Japan accounted for \$819 billion in net national savings in 1993, or 56 percent of all new savings among OECD countries. The comparable figure for the USA was \$75 billion, or 5 percent. In this context, it is not surprising that Japanese investments per worker exceeded those of U.S. companies by a factor of two or three.² Japan’s currency is among the world’s strongest. And it has a virtual

2. See Eamonn Fingleton, *Blindside* (New York: Houghton Mifflin, 1995), pp. 5–6.

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monopoly on the production of a number of materials and components used widely in the manufacture of both consumer products and industrial machinery.

The sun is not about to set on Japan's manufacturing sector; indeed, in 1993 it surpassed the United States in total manufacturing output for the first time. Japan's major exporters—Toyota, Hitachi, Canon, NEC, etc.—have found ingenious ways of cutting costs and sustaining competitiveness. Toyota, for example, reduced the number of models, standardized the production of parts, and further increased the efficiency of the production process—without relinquishing its commitment to the central features of Japan's management system. The central features of that system will survive, at least for now in the biggest manufacturing firms, because Japanese managers are still willing to pay a high premium for social harmony, nonadversarial labor relations, and cozy arrangements with *keiretsu* partners; moreover, most still believe that their system provides them with substantial advantages over their competition. Impressive arguments can certainly be mounted in defense of that conviction.³

It is true that Japan's computer industry has not achieved the global dominance its U.S. competitors feared only a few years ago. And in some key technologies—such as microprocessors, software, and the like—they are well behind leading U.S. firms. Yet Japan's computer industry continues to run a sizable surplus in its balance of trade with the world and with the United States. In the multimedia field, Japan may still be scrambling for a strategy, but its catch-up instincts are much in evidence, and in some niches—e.g., memory and display technologies—it has established a commanding lead over foreign rivals. If Japan's distribution system remains inefficient, it is, nonetheless, Daiei and Yaohan rather than Walmart or Nordstroms that are making impressive inroads into the Asian regional retailing market. Japanese banks are struggling under a mountain of nonperforming loans, but their asset base remains huge, and the full faith and credit of the Japanese government still stands behind them. Japan's population may be aging, but that is not reflected in the country's savings rate, which has begun to increase again, in response to hard times and economic uncertainties. Japan can adapt to an aging workforce by improving the status of women in the work-

3. See Fingleton, *Blindside*, particularly pp. 204–56.

place. Some sectors of Japan's economy are struggling, but both government and industry remain devoted to developing new industries for the future. A report published by MITI's Industrial Structure Council in mid-1994 identified twelve growth sectors for the twenty-first century: housing, health care, energy, information services, distribution, business consulting, new manufacturing technology, human resources, urban facilities, environment, leisure activities, and international travel and conferences. Coincidentally, if this MITI vision were effectively implemented, it could shift Japan's economy away from its current dependence on exports to a trading posture fueled more by domestic demand and more capable of absorbing a much larger share of imports from Asia, the U.S., and Europe than it currently does.

Beyond this, the Japanese continue to manage economic fundamentals extremely well. They save assiduously; their work ethic remains strong; they spend more for civilian research and development than any other country does; and they have weathered a prolonged downturn with modest unemployment and low inflation. Although younger Japanese may not share the single-minded devotion to their companies that was emblematic of the postwar generation, they remain highly educated, well motivated, and extremely competitive by any international standard.

Japan, moreover, has positioned itself better than anyone else in the East Asian regional economy. It consequently can expect a strong bounce out of the high growth in its neighborhood. The accelerated relocation of Japan's production facilities overseas is further hastening its integration into Asian markets. While reducing the export of many of Japan's consumer products, this is bolstering demand in Asia for Japanese capital goods, specialized components, and services. No wonder Japan's exports and investments in Asia are rising simultaneously. And many of the imports now finding their way into the Japanese market come from overseas affiliates of Japanese companies.

Finally, despite current problems caused by the recession and the Kobe earthquake, Japan's past fiscal prudence assures it a wider range of future policy options than virtually any other advanced country in the world can claim. We could not spend our way out of our recession in the early 1990s; the U.S. fiscal deficit deprived us of that alternative. Japan, however, is one of the few governments in the world that until recently regularly amassed sizable surpluses in its consolidated budget.

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If it has been reluctant to stimulate domestic demand through tax cuts or massive public works spending, this reflects the policy convictions of Ministry of Finance officials rather than objective constraints on their policy options.

For these reasons, despite the daunting challenges it faces, Japan remains a formidably competitive economy, many of whose manufacturing industries will emerge from the current slump leaner and more efficient than ever. The key question for us is how rapidly the internationalization of Japan's economy will unfold. The process has been under way for decades, but its contours are changing. During much of the postwar period, trade was the engine of Japan's growth, and foreign direct investment was relatively modest: less than \$4 billion in 1970. Japan imported raw materials, energy, and food while exporting finished products. And the United States was its dominant overseas market, accounting for nearly 40 percent of its exports as recently as 1989.

Today production facilities are being relocated abroad more rapidly, and Japan's direct foreign investments have increased dramatically—from \$36.5 billion in 1980 to perhaps a cumulative total of \$500 billion in 1995—as a result of a strong yen and the need to take advantage of cheap foreign labor and strengthen access to foreign markets. Manufactured goods like autos remain a staple export, but Japan's surpluses are now buoyed by overseas sales of office equipment, semiconductors, communications equipment, advanced materials, production machinery, and high-tech products of all kinds. Manufactured goods accounted for 56 percent of all imports in 1994—a sizable increase in the past five years. Moreover, while the percentage of Japan's exports to the United States has dropped to 30 percent, 40 percent are now directed to Asia.

Although the Japanese market has undeniably become more open to imports of industrial products, however, it continues to lag behind other major industrialized countries in its levels of intra-industry trade, openness to manufactured imports, and receptivity to foreign direct investment. Progress toward internationalization, moreover, has been slow in key service sectors, which remain highly insulated from international competition. Japan's administrative elite will continue to manage the public sectors and defend the underlying framework of the Japanese economic system, often at the expense of long-suffering consumers. This will continue to generate frictions with trading partners.

Two examples, supplied by Kenichi Ohmae, illustrate the persistence of these problems. The postal service—owned and operated by the government—charges roughly twice as much for postage as does its U.S. counterpart. Logically, the direct mail industry should seek low-cost alternatives to mailing from Japan; after all, Japanese marketing people could send direct mail advertising pieces to Japanese households far less expensively from the United States or Hong Kong than from anywhere in their own country. But the government has made it illegal for Japanese companies to mail such materials into Japan from abroad. The penchant for excessive regulation also results in a cost structure for Japan's airlines that is roughly twice as high as that of their major competitors—a principal reason they have been losing market share on international flights. To assuage the pain of high losses on its international routes, the government subsidizes JAL and ANA by allowing them to charge such extraordinarily high prices for domestic flights that it is now cheaper to fly round-trip from Tokyo to Chicago than between Tokyo and Okinawa.⁴ Such examples are legion. They help explain both why public support for deregulation is growing and why it will not come overnight.

Some developments should have a positive effect on U.S.-Japan trade relations. With the volume of Japanese imports expanding, U.S. producers of products ranging from personal computers to apples, from semiconductors to cellular telephones, and from pharmaceuticals to financial services should be able to increase their sales and in some cases their market share in Japan. As Japan's economy revives and the United States' recovery slows down, the bilateral trade imbalance should again begin to recede. The continuing growth of service trade as a percentage of international trade should reinforce this tendency: U.S. firms are currently the world's most efficient producers of many services; Japan's are still at a comparative disadvantage in many service sectors—not least because, as noted, they have long been shielded from tough international competition. Trade tensions should also be tempered by the continuing proliferation of strategic alliances among American and Japanese companies.

Some of the informal barriers to foreign investment in Japan are likewise coming down. Property prices continue to decline. In a soft

4. See Kenichi Ohmae, "Letter from Japan," *Harvard Business Review* (May/June 1995): 154.

labor market, the difficulties of recruiting local staffs have eased. And with many small and medium-sized firms struggling for survival, opportunities for acquisitions and mergers should increase. A weak dollar, of course, raises the cost of doing business in Japan, and this is perhaps the reason why U.S. direct investment there, while up, has not kept pace with the opportunities currently available.

Yet one cannot count on a durable lull in trade tensions. The trade imbalance remains too large, and the limits on market access in Japan are still too great to warrant complacency. In Japan's brand of highly regulated capitalism, moreover, the government continues to control the terms of competition against new entrants to the market. And while the politicians perform what Bagehot termed the "ceremonial functions" of government, the bureaucracy continues to dominate the "efficient functions"—that is, they manage the economy, run the government, and generally call the tune. The question is, therefore, whether more competitive politics are in prospect, and, if so, whether this will help open the door to genuine administrative reform and a significant deregulation of the economy.

The Prospects for Political and Administrative Reform

On July 18, 1993, the Japanese voters turned the Liberal Democratic Party out of power for the first time since the party was established in 1955. It was ousted because repeated scandals had marred its image, a prolonged economic downturn had reduced public tolerance for LDP corruption, its leaders' complacency in the face of public demands for political reform fueled the rise of reformist parties, defections from within the LDP's ranks gave a reform coalition a majority of votes in the Lower House, and the end of the cold war made the Socialists a plausible coalition partner.

While the appearance in power of Morihiro Hosokawa's reform coalition was a pleasant surprise, it scarcely represented a radical break with the past. After all, the LDP had not exactly been repudiated. None of its incumbent leaders had been defeated, though a number had migrated to other parties. When the new reform coalition's cabinet was invested, the prime minister, foreign minister, finance minister, and MITI minister all turned out to be former LDP members with roots in the old Tanaka/Takeshita/Kanemaru machine.

Still, public and press enthusiasm for change was palpable. And the

agenda the coalition proclaimed—reform of the electoral system, deregulation of the economy, greater priority to consumer interests, enhanced political discipline over the bureaucracy, and greater Japanese responsibility for international peacekeeping and the promotion of free trade—was genuinely progressive. It earned high approval ratings from the Japanese public and converged nicely with the United States' interests.

Despite strong public support, however, the coalition's rule was short-lived. Its only major legislative accomplishment—a potentially significant one, to be sure—was electoral reform. Japan's old multi-constituency election system, dating back to the 1920s, was altered to reduce the number of seats in the Lower House from 511 to 500 and to transform 60 percent of those seats into single-member district elections of a winner-take-all variety. The other 40 percent of the seats were to be determined by proportional representation based on lists of party representatives in eleven regional districts. Each voter now gets two votes: one for a candidate in his or her electoral district and another for the party of his or her choice.

By mid-summer 1994, Prime Minister Hosokawa had fallen victim to allegations of financial improprieties that had taken place before he became prime minister, and his successor, Tsutomu Hata, had succumbed to a parliamentary vote of no confidence. The Socialists and LDP—determined adversaries for a generation and the two principal losers in the 1993 election—forged a marriage of convenience to reclaim control of the government. They were joined in this coalition by the Sakigake Party, a reformist group that had defected from the LDP in 1993 under the leadership of Hiroshi Takemura. Although the LDP and the Socialists had been bitter political adversaries for decades, their views differed little on many of the trade and regulatory issues that were salient for the United States. And personal relations among some key leaders were surprisingly cordial.

A major political realignment is under way in Japan. But its future shape is far from clear. Some of the proponents of electoral reform hope that the new election rules will usher in competitive politics between two or three large, programmatic parties. At present, the competition is between two fragile coalitions composed of strange bedfellows. They are destined to undergo further transformation. Inherently unstable, the alliance between the Liberal Democrats and Socialists is unlikely to be a durable feature of the landscape, if only

because the Socialist Party, already weakened, appears destined to suffer further debilitating losses. The Socialists paid a high price for their entry into a coalition with the LDP. They were obliged to cast aside virtually all the cherished beliefs they had embraced throughout the cold war—i.e., opposition to the U.S.-Japan alliance, rejection of the constitutionality of the Self-Defense Forces, resistance to the development of civilian nuclear power, and antagonism toward the Republic of Korea. Thus, in return for the premiership, the Socialists finally joined Japan's cold war political consensus, albeit long after the cold war had ended. In the process, they alienated many of their loyal supporters, virtually assuring additional splits in the party and a further erosion of voter support. This was apparent in the July 1995 Upper House elections, in which the Socialists retained less than half of the forty-one seats they had previously controlled. Visible rifts have also appeared within the reformists' ranks. These are inspired variously by antipathy toward Ichiro Ozawa, the architect of the 1993 reform coalition and the New Frontier Party (NFP); reservations about the NFP's growing dependence on the political support of the Ko-meito Party and the financial backing of its religious arm, the Soka Gakkai; and the temptation some anti-Ozawa members feel to rejoin the LDP in order to regain the perquisites of power and forge a stable governing majority.

The Murayama government, initially expected to survive only briefly, has already been in power longer than the Hosokawa and Hata cabinets that it replaced. Political reform efforts have stalled, at least temporarily, and some commentators question whether the New Frontier Party can legitimately claim the mantle of reform. The effort to promote deregulation of the economy has lost momentum. Cynicism about the prospects for change is again widespread. Some pundits even predict that the LDP will reestablish its majority in the Lower House when the next elections are held.

Such an outcome is certainly possible but not in my judgment very likely. When given the chance, Japanese voters have expressed growing dissatisfaction with the political status quo, and a large floating vote lends uncertainty and volatility to future elections. The LDP lost its majority in the Upper House in 1989 and in the Lower House in 1993. In recent Upper House elections, the opposition New Frontier Party gained more new seats than did the LDP. And in April 1995 local elections, LDP-endorsed gubernatorial candidates in Tokyo and Osaka were

defeated by ex-comedians. As Nihon Keizai reported, "The voters said 'No' to the *dango* (collusive bidding) of politicians and bureaucrats. . . . It's clear that their judgment was based on disappointment with political parties that align themselves without regard to policy, and with a bureaucracy that stands accused of colluding with businessmen."⁵

It is also important to remember that the rules for Lower House elections have been changed, and until a few elections have been conducted, one can only speculate about the possible effects of that revision. Surely there will be some. At a minimum, representation of urban and suburban voters will increase, and those segments of the electorate have consistently exhibited greater sympathy for consumer interests and political and administrative reforms. Finally, the decline of the Socialist Party and the deep divisions among leaders of the formerly dominant Tanaka/Takeshita/Kanemaru faction in the LDP leave a potential political vacuum that will invite intensified political competition, the results of which are as yet unpredictable.

Greater competition can increase the quality of Japanese political leaders and improve their public standing. This is important because Japan's political system currently accords only limited influence to politicians. It is dominated by an iron triangle of senior officials, conservative politicians, and prominent industrialists. To oversimplify the dynamics of this arrangement, the politicians pass the laws that bureaucrats draft, the business community bankrolls politicians in return for their help in securing favors from the bureaucracy, and the administrative class manages the important business of governing the country. Reform movements have periodically surfaced with the ostensible aim of altering these arrangements and enhancing the power of the political class and those who vote them in or out of office. Few of these efforts have exerted a durable influence. Perhaps this reflects the preference of the Japanese people for strong central authority capable of managing controversy and ameliorating conflicts within the society. More likely, it is a tribute to the ascendancy of a bureaucratic leadership as determined to avoid direction from politicians as it is to prevent "confusion" in the marketplace. In this context, political reform must be regarded as a difficult uphill struggle against significant odds.

5. Quoted in Ayako Doi, "Big City Elections: A Vote Against the Mandarins," *Japan Digest* 6, no. 15 (April 17, 1995): 24.

Until Japan's political realignment takes clearer shape, however, the resulting confusion leaves control over public policy where it has traditionally rested—in the hands of the bureaucracy. The dominance of the bureaucracy is reinforced by a number of factors: the large number of ex-bureaucrats in the Diet; the *amakudari* system, through which retired officials run many of the country's private firms and public corporations; the politicians' dependence on the bureaucracy to draft laws that typically concede officials exceptional latitude in their interpretation; and—at least heretofore—an electoral system that breeds factionalism in the political parties, leaving them weakened in their struggle to hold the bureaucracy accountable.

Not that the bureaucracy is a monolith. On the contrary, sectionalism among and within ministries is as strong as ever. But without strong political leadership, disputes go unresolved, policy is marked by drift, and it is difficult to shake the status quo. Opening markets, deregulating the economy, devoting more attention to consumer interests, and shouldering larger international responsibilities are regularly affirmed as future aims by Japanese politicians, blue-ribbon commissions, and academic and journalistic commentators. But they are not the highest priorities of those elements of the Japanese bureaucracy that count the most. The Finance Ministry, secure in its position as *primus inter pares* among the ministries, drives policy through its control of budgetary and tax issues. And it has demonstrated scant interest in deviating from its well-established preference for economic nationalism, an austere budget, the suppression of domestic consumption, blank-check grants of rule-making authority, and a continuing drive to expand the nation's productivity. The administrative and institutional arrangements in Japan were designed to facilitate a disciplined national effort to catch up with and, if possible, surpass the West while minimizing foreign influence over Japan's economic and political system. Senior officials have not seen fit to modify that strategy fundamentally, and they appear reluctant to undertake any wholesale overhaul of Japan's political and administrative arrangements at a moment when international strategic, political, and economic uncertainties are multiplying.

Japan thus stands at an important turning point. Its government functions most efficiently when there is a consensus on objectives and their implementation can be left to a lean and effective bureaucracy. When new challenges arise, the government appears to temporize. Yet

Japan now faces a host of novel challenges. How should it reshape its economy to preserve its competitiveness while improving the welfare of its citizens? How should it define its new international responsibilities? How can it maintain its security in a post-cold war setting? Should it identify its international priorities essentially with the West or with its Asian neighbors? Must it choose? These are issues of identity and national purpose. They are quintessentially political in character. In a democratic society, they demand public debate. And for the debate to be meaningful, elected representatives of the society must be prepared to insist on bureaucratic compliance with authoritative expressions of the public's will. Political reform is incomplete without administrative reform; political accountability impossible without bureaucratic responsiveness. Hence, Japan faces a dual challenge: to define new purposes through a more competitive political process, and to subject its bureaucratic establishment to greater political direction.⁶

If the new election system does yield more competitive politics between more programmatic parties—and this remains a big if—issues that in the past were resolved in backroom negotiations among LDP faction leaders and senior bureaucrats should be pushed out into the open where they can be publicly debated. While neither the LDP nor the New Frontier Party possesses strong ideological and programmatic tendencies, they do appear, broadly speaking, to represent differing inclinations on the issues of greatest moment to Japan. The LDP is more committed to the status quo at home and possesses more nationalistic reflexes on foreign policy; the New Frontier Party appears more favorably disposed to deregulation of the domestic economy and an expansion of Japan's international responsibilities. If parties with differing platforms alternate in power, over time pressure to enhance bureaucratic responsiveness to political direction should increase. Hints of this were visible in 1993, when the Hosokawa government purged a senior MITI official who was perceived as being too closely affiliated with the LDP. But a genuine realignment of Japanese politics will take time, and the emergence of a simpler and more competitive party system is by no means foreordained. Nor, certainly, is the politicians' ability to subject proud bureaucracies to political direction.

Failure to achieve more competitive politics certainly will delay pos-

6. These are the leitmotifs in Ichiro Ozawa's book, *A New Blueprint for Japan's Future* (Tokyo: Kodansha International, 1994).

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sibilities for genuine administrative reform, in which Japan's trading partners have a huge stake. To be sure, important interests call with growing frequency for administrative reform. The business federations regularly advise it; political leaders routinely acknowledge its necessity; the Murayama cabinet promised a comprehensive five-year program of regulatory reform; and the press has appointed itself cheerleader and watchdog. To date, however, the results have been meager. The reasons are clear. The business community's support for deregulation is soft—long on generalities, equivocal on specifics. Few political leaders have offered more than ritualistic support, since it is within the interstices of an extensive and opaque regulatory system that Japanese politicians are able to extract rents in return for favors to constituents. A few individuals who have publicized the stultifying effects of the current administrative arrangements have achieved notoriety, but their complaints have as yet brought little tangible change.⁷ The most consequential resistance comes predictably from the bureaucracy, and that resistance is intense. Administrative reform is a direct assault on the source of the bureaucracy's power. Heretofore, senior officials have successfully eviscerated every reform effort, reducing ambitious proposals to meaningless gestures. And they appear determined to continue doing so.

Some deregulation, to be sure, is inevitable; indeed, modest steps have already been taken. But efforts are unlikely to attain significant momentum until those who manage the economy are persuaded that the current regulatory system—which tends to prohibit anything not expressly authorized—is eroding Japan's competitiveness. It is noteworthy that the Maekawa Report, issued in 1986, urged deregulation principally in order to mollify foreign trading partners and to harmonize Japan's practices with the international community. The bureaucracy ignored most of its central recommendations. Today deregulation is being suggested in order to lower prices, stimulate investment, eliminate restrictions on business activities, boost productivity, and relieve relentless upward pressure on the yen—all more politically compelling justifications. But pending either political reform or unexpected displays of bureaucratic self-abnegation, progress toward significant administrative reform appears likely to remain slow. Under these cir-

7. Masao Miyamoto's book *The Straitjacket Society* (Tokyo: Kodansha International, 1994) provides much anecdotal evidence of the perverse consequences of excessive regulation. Miyamoto has received impressive publicity and lucrative book contracts but was recently fired by the Health and Welfare Ministry.

cumstances, dramatic initiatives in the field of defense and foreign policy are also unlikely. Heightened nationalism provides a defense against foreign pressure for trade concessions. And weak political leadership and bureaucratic sectionalism reinforce minimalism as the watchword of foreign and security policy.

Will Japan Become a Major Military Power?

Since the Meiji Restoration, Japan has viewed its neighbors as rivals—militarily powerful and potentially antagonistic. Today Tokyo again has reason to regard its neighbors warily. North Korea has recently advertised its nuclear ambitions; nationalism is again on the rise in Russia; China's assertiveness on certain territorial issues (e.g., the Spratly Islands) has increased, against the backdrop of an ambitious program of military modernization. Meanwhile, some Japanese question the reliability and durability of the U.S. strategic guarantee under post-cold war conditions. It is scarcely surprising, therefore, that many wonder whether Japan will make a bid for major military power status in the years to come.

In fact, Japan's military power is already significant, and its military potential has reached a level that no Asian nation can ignore. Its defense budget is the third largest in the world. It has acquired front-line equipment of impressive technical sophistication. The strength of Japan's economy and its impressive technical and human resources assure it a formidable military mobilization base. Few doubt Tokyo's ability swiftly to acquire nuclear capabilities, if provoked. And its advanced space program would enable it to field ballistic missile delivery systems of intercontinental range in short order.

Japan's military capabilities and its readiness to utilize them have gradually expanded in recent years. Since the mid-1980s Tokyo has extended its naval defense perimeter a thousand miles to the south of Tokyo. On three occasions since 1992 it has dispatched Self-Defense Force units abroad in support of UN peacekeeping or disaster relief operations. In 1994 an advisory group on security policy commissioned by Prime Minister Hosokawa recommended that Japan augment its intelligence gathering through the deployment of satellites and develop stronger logistic support for its UN peacekeeping activities. Press reports in mid-1995 suggest that the Japanese navy plans to acquire within the next three or four years four flat-deck 8,900-ton

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amphibious landing ships that could be converted into mini-flat tops capable of carrying Harrier jump jets.⁸

Postwar constraints on defense activities have gradually weakened in Japan. Politicians now speak more openly about Japan's national interests. Proposals to revise the constitution enjoy resonance among some prominent politicians within the government and the opposition; the *Yomiuri Shinbun*, Japan's most widely read daily newspaper, even published a proposed draft. Socialist opposition to Japan's defense programs has softened. Press reports openly acknowledge that the Japanese government explored the efficacy of a nuclear option at the time of Eisaku Sato's government in the late 1960s. (The report resulting from this analysis apparently concluded that Japan possessed the technical capacity to acquire nuclear weapons but that any effort to develop them would be strategically and politically counterproductive.) And some conservatives who express a desire to see Japan become once again what they term an ordinary country presumably wish to see a fuller development of Japan's defense capabilities. (There are exceptions, notably Ichiro Ozawa, whose book, *A New Blueprint for Japan's Future*, argues that extension of Japan's defense capabilities should be limited to supporting peacekeeping operations authorized by the United Nations.)

Interpreting this gradual expansion of Japan's defense capabilities and guidelines in the light of its mercantilist tradition, its past quest for regional preeminence, the highly competitive nature of its society, its acute consciousness of rank and status, and the bias of Japanese institutions in favor of state interests rather than individual welfare, some observers argue that the disparity between Japan's economic power and its military status will inevitably narrow. Yet powerful constraints on Japan's defense efforts remain in place, and its leading politicians certainly understand the high costs and adverse consequences any major Japanese military buildup would stimulate in the absence of a clear, palpable, and unprovoked threat to Japan's security. There is still substantial support in Japan for an international role as a "global civilian power"—an extension in a slightly different form of its long-established Yoshida line. Pacifism continues to run deep in Japan's mass culture.

As a trading nation, Japan has made use of export-led growth. It has supplemented its export capabilities by recycling its immense trade

8. See *Japan Digest* 6, no. 23 (June 19, 1995): 12.

surpluses through heavy investments throughout the world. Protection of its commercial interests requires peace and the confidence of its trading partners. Both could be jeopardized by a major military buildup. In addition, at a time when Japan faces stern economic competition from both advanced and developing countries, diverting financial resources and engineering and scientific talent from the civilian into the defense sector would impose unwelcome burdens on the competitiveness of Japanese firms. And while Japan's overseas investments are a considerable asset in times of peace, when conflicts threaten they provide potential hostages to foreign interests.

Constitutional and political inhibitions against a Japanese quest for major military power remain strong. Indeed Prime Minister Murayama was reluctant to utilize Self-Defense Forces even for disaster relief during the Kobe earthquake. In the political realignment currently under way in Japan, dovish elements are distributed broadly within both the governing and opposition coalitions. The Japanese public displays little interest in revising or eliminating constitutional impediments to an expanded security role in the world. And budgetary constraints on the Defense Agency budget remain tight.

The Japanese fully understand the high costs a military buildup would impose on their relations with Asian neighbors. Japan has just begun to overcome the legacy of its colonial and wartime conduct in Korea, China, and Southeast Asia. A significant enlargement of its defense capabilities—particularly if accompanied by friction in its relationship with the United States—would reawaken fears among its neighbors and complicate Japanese efforts to carve out a stronger leadership position in Asia. Japan's geographic limitations and its resource deficiencies make it unlikely that it could become a strategic superpower—a nation able and willing to extend protection to others.⁹ Hence any rapid expansion of Japan's military power would be more likely to be perceived by neighbors as a threat than as a source of reassurance.

None of these considerations guarantees that Japan will indefinitely forgo the acquisition of power projection capabilities, a nuclear deterrent, arms exports, or the assumption of overseas military responsibil-

9. For elaboration of this point, see Michael M. May, "Japan as a Superpower?" *International Security* 18, no. 3 (winter 1993/94): 82–187.

ities outside the framework of UN peacekeeping. But they do make any of these developments unlikely in the absence of a decisive rupture of the U.S.-Japan alliance. Just as the termination of Japan's alliance with the United Kingdom set Japan adrift after World War I, an end to the U.S.-Japan Treaty of Mutual Cooperation and Security would unhinge the moorings of Japan's contemporary diplomatic and security policy. Thus the United States' reputation as a reliable ally remains perhaps the most significant inhibition to Japan's incentive to seek strategic autonomy.

Coincidentally, it appears unlikely that Japan would throw its technological weight around by withholding components of U.S. defense systems. It did not do so during the Gulf war, and I doubt that it will. While the Sharp Corporation recently refused to manufacture leading-edge liquid crystal display technology to U.S. military specifications, its motivations were principally commercial, and the Defense Department responded by extending subsidies to potential domestic suppliers. If the Japanese government encouraged its companies to withhold technical support or critical supplies from the United States, its reputation as a reliable commercial partner and security ally would be irreparably damaged. And it would quickly discover that it suffers substantial disadvantages in such a game. The long-lead-time items in defense production are systems integration capabilities and an R-and-D base. In both fields, U.S. superiority is clear, and the lead times would give us ample opportunities to overcome deficiencies in other aspects of our defense industrial base.

The force of inertia, as well as a clear-eyed appraisal of its interests, will likely impel Japan to continue to rely on the alliance, and Tokyo clearly has welcomed recent signs that the Clinton administration seeks to reinforce the bilateral security relationship. Yet the juxtaposition of a huge economic base and immense technological power with extraordinary dependence on the United States remains something of an anomaly. Moreover, the brutal rape of a Japanese teenager by U.S. servicemen in Okinawa in October 1995 provoked an emotional nationalist reaction. Several members of the Diet called for the reduction or elimination of the American military presence, and the incident exposed the reluctance of a weak coalition government to publicly defend the alliance. This may further reinforce a visible tendency among the Japanese to question the future efficacy of the alliance at a time when the USA appears to be turning inward and defining its secu-

rity interests with greater circumspection and less generosity. They have observed the sharper edge to our trade negotiations and the growing intensity of bilateral commercial competition. In Somalia and Bosnia, they witnessed the speed with which the United States appeared to retreat from security duties in the face of high risks and a few casualties. As Japan's obligations to provide financial support to our forward-deployed units grows, moreover, it may judge that the costs of our guarantee are going up as its value recedes. And as the Japanese continue to place the building blocks for strategic independence in place—through, for example, the growth of their space program, their civil nuclear effort, and their aviation and aeronautics industry—the marginal costs of a strategic breakout will gradually decline.

In strategic terms, the Japanese have three broad alternatives. First, they can stick with established policy—reliance on the U.S. alliance—while continuing to improve the quality and capabilities of the Self-Defense Forces, with particular emphasis on guided missiles, telecommunications, aeronautics, and remote-controlled observation systems; extending their participation in UN peacekeeping activities; and taking an active part in developing the ASEAN regional forum and its security dialogue.

Second, they could seek to align themselves with another major power. At present this scarcely appears realistic. An alignment with Russia could theoretically offer Japan relief from its dependence on the United States, access to resources in Siberia, and a possible means of recovering the Northern Territories. For Russia, close links with Japan could bring desperately needed financial help. But apart from the fact that Russians and Japanese have scant empathy for one another, the risks for both far exceed any potential benefits. The U.S. and Chinese markets are worth much more to Japan than Russia's; Tokyo can achieve access to Siberian resources without a security connection to Moscow; and a Japanese alignment with Russia could provoke a counteralignment between Japan's main potential rival at sea (the United States) and Russia's principal potential rival on land (China). A Sino-Japanese alignment is more plausible, though still remote. For China, Japan offers an attractive source of aid, investment, and technology; it provides China with a possible source of leverage on U.S. policy; and its market is a genuine magnet. For Japan, close ties with Beijing are useful in Tokyo's relations both with Russia and the United States and central to its efforts to carve out a larger regional

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role. Nonetheless, a security connection between these two Asian giants is counterintuitive, except in the context of a threat that Russia no longer poses and the United States will not provide. Without such a pretext, a Sino-Japanese alliance would serve no obvious purpose; it would alarm Japan's neighbors while inviting U.S. enmity.

Third, they can embark on an independent strategic course that would imply a readiness to give up the alliance with the United States and perhaps acquire nuclear weapons. This would relieve Japan of its dependence on the United States and provide it with the muscle to support an autonomous diplomacy, satisfy some Japanese ultranationalists, and supply new business to Japan's defense industry.

Pursuit of the first option appears the most likely course of action for the Japanese. It allows Japan to temporize, avoiding—or, at a minimum, deferring—a more drastic alternative. It avoids the costs associated with a strategic breakout while reminding others of Japan's capacity for greater military independence, should its interests be ignored. As Japan's capabilities gradually increase, of course, uncertainties about its future intentions may grow. And in a climate of uncertainty, the possibilities for miscalculation would increase on all sides. Singapore's former prime minister, Lee Kwan Yew, recently reminded the Japanese of the risks of its own miscalculations, noting that it "risks serious deterioration in [its] bilateral relations with the U.S. if it persists with its current [mercantilist] practices. . . . So Japan must weigh its trading interests against its need for an indispensable U.S. counterweight to a China growing in weight and influence, and a Russia which is still well-armed but unstable."¹⁰ For the foreseeable future, expectations of strategic rivalry, let alone renewed military conflict, between Washington and Tokyo, are more the grist of fanciful novels¹¹ than compelling analysis.

Japan Between East and West

For more than a century, Japan has been poised uneasily between its Asian roots and the aspiration to transcend its Asian identity. At the G-7 summit in Williamsburg, Virginia, in 1983, Prime Minister

10. "Japan Must Open Market Before Taking Leadership," *Nikkei Weekly*, July 3, 1995, p. 15.

11. See, for example, Tom Clancy, *Debt of Honor* (New York: Doubleday, 1994).

Yasuhiro Nakasone proclaimed Japan a member of the West. Yet many Japanese feel they do not fit comfortably within the Western camp. And Washington's occasional talk about a constellation of countries "from Vancouver to Vladivostok" prompts questions as to whether they are welcome. Among Asians, Japan is widely respected for its remarkable postwar economic record. Its aid, its investments, its exports, and its technology are welcomed by all. Its model of catch-up capitalism is widely emulated. Its popular culture has begun to elicit growing interest among its neighbors. And many prominent Japanese are currently calling for the "re-Asianization" of Japan's foreign policy.

Many Asians, however, remain ambivalent about Japan. Its economy accounts for nearly two-thirds of Asia's gross product; hence its strength inevitably provokes some fears of domination and exploitation. Many are uncomfortable with Japan's preferred "flying geese" model of regional development, for it seems to assign them a position of permanent subordination to Tokyo's lead. There are contradictions, moreover, in Japan's active promotion of export-led growth and its reluctance to absorb a much larger share of Asia's manufactured products. Uncertainties persist as to how a more powerful Japan might define its regional objectives. And the past casts a lingering shadow over Tokyo's relations with its neighbors—particularly Korea and China.

Japan's Nobel prize-winning author, Kenzaburo Oe, has underlined the continuing salience of Japan's need to come to terms with its past. "For the Japanese to be able to regard twenty-first century Asia not as a new economic power rivaling the West but as a region in which Japan can be a true partner, they must first establish a basis that would enable them to criticize their neighbors and be criticized in turn. For this, Japan must apologize for its aggression and offer compensation. This is the basic condition, and most Japanese with a good conscience have been for it. But a coalition of conservative parties, bureaucrats and business leaders opposes it."¹² Failure to face these issues squarely leaves Japan's postwar reconciliation with its neighbors incomplete and younger Japanese ill-informed.

In fact, younger Japanese should increasingly be able to address these issues with greater detachment and less anguish. And however

12. Kenzaburo Oe, "Denying History," *New York Times Magazine*, July 2, 1995, pp. 28–29.

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reticent conservative bureaucrats and politicians may be about coming to terms with Japan's historical responsibility in these matters, they no longer monopolize the information available to the Japanese public. The international media sees to that. Several years ago, for example, a teacher in a Japanese school in Singapore made a documentary about Japan's 1941 invasion of Singapore in order that his students might better understand local attitudes toward Japan. The documentary was straightforward and evidently graphic. Its effect on the students was reportedly profound. Once this story broke in the Singapore press, it created a media stir back in Japan, sparking press commentary for weeks. When accusations that Japan had officially recruited Koreans and other Asians to serve as "comfort women" for Japanese soldiers, the designated government spokesperson denied official complicity. The denial did not stand up to careful scrutiny, and the ensuing media coverage exposed many activities that had long been ignored in Japan's public discussion of wartime events. The fiftieth anniversary of Pearl Harbor likewise brought documentaries produced at home and abroad that received wide exposure and further illuminated dark corners of the past. Japanese textbooks are beginning to acknowledge colonial and wartime misdeeds more candidly, and the fiftieth anniversary of the war's end has added further detail. So will the widespread availability of CD-ROMs providing data on this period from a rich diversity of international sources. Thus in Japan as in other countries the information revolution is eroding the capacity of officials to control public perceptions of historical events.

Prime ministers Hosokawa, Hata, and Murayama have expressed more forthrightly, more sincerely, and more spontaneously than any of their predecessors official regrets for Japanese conduct in the 1930s and 1940s. But when Prime Minister Murayama recently staked much political capital on securing a Diet resolution expressing Japan's remorse for its prewar and wartime conduct, determined opposition from conservative politicians and veterans' groups resulted in watered-down language that forfeited any goodwill the resolution might have engendered abroad. Even then, the resolution had to be rammed through the Diet in the face of a boycott of seventy LDP members and all the main opposition delegates. And this sorry episode came on the heels of the late former foreign minister Michio Watanabe's public assertion that Japan had "amicably" taken over control of the Korean peninsula in 1910—a statement that South Korea's Prime Minister Lee

Hong Koo denounced as absurd and for which Watanabe was compelled to apologize.

Needless to add, time heals old wounds. And these memories are more vivid in the minds of Koreans and Chinese than those of Malaysians, Indonesians, and Thai. Indeed, during a recent visit by Prime Minister Murayama to Kuala Lumpur, the Malaysian prime minister chided him for worrying so much about the past and urged him to assert stronger leadership in Asia.

In some respects, Japan is well positioned to do so. Its consumer products are universally admired and widely imitated. Its capital goods now fill Asia's booming factories. Its official development assistance dwarfs that of the United States and all other donors, and its support for infrastructure projects has been shrewdly designed to generate commercial opportunities that are eagerly exploited by Japanese companies. Its commercial loans and technology transfers represent significant sources of leverage. Its communitarian values are compatible with Asian inclinations. So are its pragmatic approach to government-private sector cooperation and its industrial policy tradition. And the strong yen, by accelerating the relocation of many Japanese production facilities into neighboring Asian markets, is hastening Japan's integration into the regional economy. Already it has outpaced our own. And pressure is growing to denominate more of Asia's trade in yen and to utilize it as an international reserve currency.

Nor has Japan neglected to solidify its position within the Asian community. For some years it has spoken for Asian interests within the G-7 and other international fora. It has carved out a substantial role in regional institutions. It has encouraged industrial policies for the ASEAN countries that harmonize with its own industrial plans. It is cultivating closer bilateral links with its neighbors in every field. It has opened its universities to large numbers of Asian students. And its officials have invited innumerable Asian counterparts to Japan to participate in courses on development challenges, industrial policies, and financial issues.

Foreign direct investment constitutes a principal instrument of Japan's strategy in Asia. Through 1994 Japan's cumulative direct investment in Asia came to \$64 billion—two-and-a-half times the estimated American total. Its need to recycle a massive trade surplus and the effects of a high yen on the cost structure of many Japanese industries have fueled the outflow of funds, not only from Japanese multination-

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als but also from small and medium-sized enterprises that throughout the region provide components and parts for Japanese multinationals as well as for local manufacturers. This investment affords broad segments of Japan's industry access to growing overseas markets while keeping their cost structures competitive internationally.

Some see in this external migration of Japanese capital a sinister plot to integrate the Asian economy under Japan's leadership. Undoubtedly one could find senior Japanese officials, prominent politicians, and business leaders in Tokyo who harbor such ambitions. But corporate investment decisions are driven principally by commercial considerations. Of course, as Japanese investments in the region grow, so in general will the influence of the Japanese government. When it talks, Asians certainly listen. But they will not blindly follow Tokyo's lead. Like developing nations everywhere, the industrializing countries of Asia are sensitive about their sovereign prerogatives. They are determined to increase the local content of foreign subsidiaries operating within their borders. They drive increasingly tough bargains over the transfer of technology and the inclusion of local nationals in the management structures of foreign firms. Japan's overseas investments also constitute hostages to Asian demands for wider access to Japan's market.

Fears of Japan's domination of the Asian regional economy are likely to prove no more prophetic than Jean-Jacques Servan-Schreiber's apprehensions in the mid-1960s about Europe's domination by U.S. multinationals.¹³ While Japan is creating a formidable production network in Asia, it is not alone. The nexus between China and the overseas Chinese community in Southeast Asia provides one counterweight; U.S. and European multinationals supply another. Most important, however, is the fact that most Asian countries are financing their growth principally through high rates of internal savings. As their economies prosper, they are becoming major foreign investors in their own right. As always, competition—among investors and exporters—provides the principal check against any nation's ability to establish dominion. This unquestionably accounts for the evident desire of Southeast Asian countries to see U.S. investment levels and commercial activity in the area increase. And we have a comparable interest in ensuring that our companies participate fully in the burgeoning prosperity of Asia.

Ironically, if some Asians worry about the weight of Japan's economic influence, many Japanese now betray apprehensions that they

have missed their moment in the sun. While they have been mired in recession, the world's attention has been seized by China's relentless industrial advance, even as Korea, Taiwan, Singapore, Hong Kong, and others have been chipping away at Japan's competitive edge in fields ranging from semiconductor manufacturing to high finance. Other Japanese worry that the United States will bypass them in Asia. Recalling that the USA's relations have rarely been simultaneously good with both Japan and China, some fear current trade frictions between Washington and Tokyo may tip the balance of U.S. interest toward Beijing, whose large and rapidly growing market exerts a magnetic attraction on many American multinationals. Worries that Japan's market is losing its allure are reinforced by the exodus of many U.S. firms from the Tokyo Stock Exchange in favor of cheaper and less heavily regulated financial centers in Hong Kong and Singapore. And many other U.S. companies are seeking to develop corporate strategies for Asia that work around Japan's high-cost, high-regulation market in favor of lower risks and higher returns elsewhere. At a time when transportation routes all over Asia are expanding rapidly, domestic constraints on Japan's ability to extend its airport runways and reduce costly fares and handling services have diminished Tokyo's chances of becoming the major regional transportation hub. And regulatory excesses pose obstacles to Nippon Telegraph and Telephone and private Japanese telecommunications companies in their quest for a decisive role in this key industry in Asia's future.

Despite these concerns, or perhaps because of them, Japan is devoting more and more attention to its interests in Asia. This is understandable. Security concerns about other major powers have temporarily diminished. The center of gravity in the global economy continues to shift toward the Pacific. Asia provides an arena in which Tokyo can exert more visible leadership and a natural constituency for its efforts to play a wider global role. Interest among Asians in Japan's experience is high. And trade frictions with Washington have stimulated nationalist reactions in Japan that encourage its government to stake out more independent policies in its own backyard.

Yet the Japanese will seek, if at all possible, to avoid a choice between its Asian neighbors and its American ally. Tokyo's stake in the North American market remains immense; more than a quarter of its exports still wind up in the United States, and the percentage is larger if one adds the sales of its foreign affiliates. More and more of its com-

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panies are tied through strategic alliances to U.S. firms. Japan's hopes for a permanent seat on the Security Council require the USA's assent. In addition, Tokyo's relations with its neighbors would be complicated by a withering of its defense cooperation with Washington. And the alliance with the United States represents a valuable form of insurance at a time when the regional security environment remains fraught with uncertainties. It is therefore not surprising that many Japanese remain attached to the image of Japan as a bridge between East and West. It is a comforting metaphor. Certainly, it is easier to be a bridge than a broker.

But asserting leadership requires balancing interests, imposing priorities, and shouldering risks. It demands the use of political capital rather than merely its accumulation. And it will require a further opening of Japan—to foreign products, to foreign capital, to foreign students, to foreign ideas, and even perhaps to foreign immigrants. Ironically, then, Japan's hopes of retaining its alliance with the United States and exerting greater leadership in Asia may compel it to accelerate the reform of its political system and the opening of its market. In the post-cold war era Japan cannot expect Asians fully to exploit the potential of Japanese-style export-led growth unless Tokyo provides a more substantial market for Asia's exports. Nor can it expect Washington's support for its security if it exhibits insensitivity to U.S. interests in Asia.