

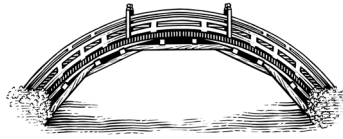
BOOK REVIEW ROUNDTABLE

Saori N. Katada's

*Japan's New Regional Reality:  
Goeconomic Strategy in the Asia-Pacific*

New York: Columbia University Press, 2020

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*T.J. Pempel*

*Kristin Vekasi*

*Shihoko Goto*

*William W. Grimes*

*Saori N. Katada*

## Geoeconomic Order in the Asia-Pacific

*T.J. Pempel*

The Asia-Pacific is experiencing tremendous uncertainty. Past patterns and long-standing norms have become weak predictors of current regional interactions. Today's uncertainty contrasts with two earlier, more-defined regional periods.<sup>1</sup> A rigid Cold War bipolarity structured security and economic relations in the early years following World War II until it slowly buckled after a series of events: the United States' defeat in the Vietnam War, China's limited embrace of markets, and the collapse of the Soviet Union and its satellites. Crucially, geoeconomic relationships rarely bridged the yawning geostrategic gorge of bipolarity. Friends traded with friends, not with potential adversaries.

A second order elided the first, distinguished by reductions in the centrality of hard security conflicts and declining military budgets, on the one hand, and deepening economic interdependence with expanded regional institutionalism transcending ideological differences, on the other. The result was a regional order marked predominantly by peace and prosperity lasting from the late 1980s into the early 21st century.

Continuities from this order remain; however, the last decade has witnessed numerous birth pangs suggesting the arrival of a third order dominated by a resurgence of geopolitics, nationalism, and heightened state-to-state tensions. Most prominent among the recent changes has been the acrimonious deterioration in relations between an ever-richer and more militarily assertive China and an economically wobbling and militarily drained United States. Predictions proliferate of a gladiatorial contest marked by xenophobic salvos, economic decoupling, techno-nationalism, mutual provocations, and the menacing whirlpool of military conflict.<sup>2</sup>

Saori Katada's new book *Japan's New Regional Reality: Geoeconomic Strategy in the Asia-Pacific* advances an overarching argument about

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<sup>1</sup> For an elaboration of my thinking on this, see T.J. Pempel, "Japan: Working to Shape the Regional Order," in *Japan and Asia's Contested Order*, ed. Yul Soh and T.J. Pempel (Singapore: Palgrave Macmillan, 2019), 193–220.

<sup>2</sup> Perhaps the most well-known among such analysts is Graham Allison, who popularized the notion of inevitable conflict as the "Thucydides trap." See, for example, Graham Allison, "The Thucydides Trap: Are the U.S. and China Headed for War?" *Atlantic*, September 24, 2015 ~ <https://www.theatlantic.com/international/archive/2015/09/united-states-china-war-thucydides-trap/406756>.

Japan's geoeconomic efforts during the second and third of these orders. During the first and early second order, when the United States and Japan held the preponderance of regional economic power, Tokyo pursued what Katada labels its "old-style regional geoeconomic strategy" (p. 16). This strategy was a product of the country's bilateral predisposition and domestic mercantilism. Since the late 1990s, as China added muscle and Japanese vigor flagged, the old strategy has been jettisoned in favor of a new, state-led, and liberal strategy anchored in "regionalism as its structure, formal rules and institution building as its mode of engagement, and the promotion of liberal global standards as the underlying values" (p. 20). Recent top-down government initiatives make this new strategy "state-led," and while "liberal," it is less about the ideological embrace of free-market fundamentalism than the advance of rules-based standards advancing competitive markets (p. 20). Not at all coincidentally, such standards are highly beneficial to Japan's most sophisticated global companies.

The book is compelling in its nuanced advance of this core argument, four elements of which, in my estimation, deserve to be highlighted here. First, the book's emphasis on geoeconomics resonates with the overwhelming attention that most Asian governments devote to their national economies as integral components of national security. Leaders in these countries remain largely convinced that their continued legitimacy depends on delivering tangible material benefits to their citizens. Since the economies of most Asian states are deeply enmeshed in regional production networks and complex supply lines, none are eager to confront a Hobson's choice between hard security and continued economic interdependence. Such a choice might be pressed on them should China and the United States advance toward existential competition with the demand that other regional actors choose sides.

Second, the book is compelling in its treatment of the interactions between Japan's domestic political economy and its efforts to respond to alterations in regional economics. The complicated weavings of embedded mercantilism that defined Japan's domestic political economy until the mid-1990s unraveled due to the restructuring of government agencies, financial reforms, enhanced political intervention by policymakers on behalf of the economy's least-competitive sectors, and globalized businesses that were no longer tethered to state largess or bank loans. These new domestic arrangements altered Japan's responses to the changing regional environment. Although Katada is not explicit about causality, my reading is that both shifting regional conditions and a changed domestic political

economy are necessary, but neither alone is sufficient to explain the country's evolving strategy.

Third, by analyzing how three separate facets of geoeconomics have advanced at different paces and achieved varying degrees of success, Katada underscores the complexities of forging a coherent geoeconomic strategy. Thus, state-led endeavors in trade and investment have largely jettisoned embedded mercantilism and progressed steadily through sequential economic partnerships and multilateral investment treaties. This approach culminated in the Trans-Pacific Partnership, which, after the Trump administration scuttled it, Japan resuscitated into the attenuated Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Efforts in money and finance, in contrast, have traveled a bumpier road, marked by the defeat of Japan's proposed Asian Monetary Fund and the failure to develop the equivalent of a regional currency. Yet the overall geoeconomic strategy has seen success with the creation of regional financial institutions such as the Chiang Mai Initiative Multilateralization and Asian bond markets. Endeavors in official development assistance and other forms of development, meanwhile, have reflected a hybrid encompassing old and new strategies, efforts to forge public-private partnerships, and a cautious ambivalence toward China's new institutional ventures such as the Belt and Road Initiative and the Asian Infrastructure Investment Bank (AIIB). The different paths of these three facets of geoeconomic strategy trace not only variations in regional resistances but also embedded domestic power arrangements, legacies of the past, institutional stickiness, and divergent political alignments within both government agencies and different segments of business.

Fourth, and most central to the evolving character of the Asia-Pacific, Katada foresees the potential for Japan to serve as a counterweight to the binary choices that a U.S.-China rivalry might otherwise impose on the region: "Japan's strong economic connections to both the United States and China as well as Southeast Asia have placed the country in a unique position of influence and power, which provides Japan a space to move strategically in the field of regional rule setting and institution building" (p. 65). Japan's leadership in the restructured CPTPP provides one such instance of a balancing role. Equally noteworthy are Japan's Partnership for Quality Infrastructure development plan and its promotion of the "free and open Indo-Pacific" concept, as well as its orchestration of

collaboration with the Asian Development Bank, the AIIB, and the World Bank on infrastructure projects.

The mark of a powerful book is that it prompts further discussion. To that end, let me pose three questions left unresolved in *Japan's New Regional Reality* but vital to Japan's regional strategy going forward. First, while Japanese policymakers may indeed be attempting to advance the strategy laid out in the book, it is less clear what resources they are able and prepared to mobilize. Japanese GDP growth remains tepid, with negative growth during four of the past ten years and the highest growth rate (in 2017) an unimpressive 1.6%. Roughly 24% of Japan's annual budget is allocated to servicing the national debt, further limiting the available resources to facilitate any government strategy. Although the economic and technological resources of many Japanese companies are still formidable, they can no longer be counted on to respond to a government that has lost the leverage it once had over individual corporate behaviors. Indeed, many have resisted government blandishments to participate in its preferred public-private partnerships. Nor does the government appear ready to throw open its markets to the products or components of other Asian economies as a counterweight to the more welcome reception found in China.

A second and related question concerns Asian receptivity to Japan's strategic endeavors. The CPTPP showed that many regional states are prepared to undertake domestically costly trade and investment rules; however, most did so in anticipation of at some point gaining major benefits in the U.S. market. Nor are some crucial economies, such as South Korea's and Taiwan's, part of the CPTPP. Taiwan would surely welcome enhanced links with Japan, but South Korea has vehemently resisted deepening ties. It is far from clear that countries in the region are anxious to accept Japan's leadership in forging a region-wide rules-based liberalism.

This leads to a third question focused on Japan's ability to play the role of balancer between China and the United States. A balancer normally shifts its leverage back and forth between two relatively equal players with competing goals so as to prevent either from gaining control over the balancer's future. Despite their geostrategic differences, economic interdependence between China and Japan is deep, and neither side is keen to significantly decouple. Yet the United States' longtime engagement in the region has given way to protectionism, disdain for regionalism, upbraiding of longtime allies, and favoritism for dictators such as Kim Jong-un, Rodrigo Duterte, and Prayut Chan-o-cha. Maddening as such actions are to Tokyo, most are welcomed

by Beijing, despite the Trump administration's broader efforts to paint China as an existential threat.<sup>3</sup> In such a situation, how does Japan balance?

Perhaps a new U.S. administration promoting a more nuanced approach toward the Asia-Pacific might afford Japan the ability to become the balancer that Katada envisions; however, even a United States filled with new purpose will need years to rise from the ashes left by the wildfires of tribalism, an uncontrolled pandemic, massive debt, institution shredding, and diplomatic dismemberment ignited by the political pyromaniacs in the Trump administration. Nonetheless, *Japan's New Regional Rivalry* provides a timely analysis offering numerous insights into Japan, regionalism, geoeconomics, and the complexities with which each of these subjects now contends. While it may frustrate anyone searching for monocausal parsimony, the book offers a rich read for serious real-world analysis. ♦

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<sup>3</sup> See, for example, Mike Pence (remarks at the Hudson Institute, Washington, D.C., October 4, 2018) ~ <https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-administrations-policy-toward-china>; and Michael R. Pompeo, "Communist China and the Free World's Future" (remarks at Richard Nixon Presidential Library and Museum, Yorba Linda, July 23, 2020) ~ <https://www.state.gov/communist-china-and-the-free-worlds-future>.

## The Private Sector in Japan's State-Led Liberal Strategy

*Kristin Vekasi*

When Donald Trump won the 2016 presidential election, it was immediately evident that Japan's already difficult regional choices would become even more fraught. As China's economic and political power has surged over the past three decades, Japan has had to make difficult choices about balancing between coordinating with a close neighbor and cooperating with its powerful security ally. Saori Katada's book *Japan's New Regional Reality: Geoeconomic Strategy in the Asia-Pacific* is an important contribution to understanding Japan's navigation of its geoeconomic situation.

Many scholars emphasize deepening the U.S.-Japan alliance as key to Japan's future stability and prosperity,<sup>1</sup> or have found that Japan has deepened security ties in order to keep the United States in the region and hedge against China's rise.<sup>2</sup> Katada makes an important new contribution to this discussion, showing how Japan's "state-led liberal strategy" has opened up new political space for the country to achieve its interests (introduction and chapter 1). She provides important nuance to our understanding of Japan's geoeconomic strategy, particularly with evidence suggesting that it could be a "pivotal state" in the region.

Japan's maneuvers within the U.S.-China nexus are particularly evident in trade policy. Over the past decade, the two major attempts at regional integration have been the U.S.-led Trans-Pacific Partnership, which excluded China, and the Regional Comprehensive Economic Partnership, which excludes the United States. Japan's role in both of these efforts demonstrates the characteristics of the state-led liberal strategy: regional integration, promotion of rules and standards, and formal institution building. Katada argues that while Japan overall leans toward the United States, its state-led liberal strategy has also allowed Japan to influence the direction of Chinese regional policy by guiding the types of rules, standards, and institutions

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<sup>1</sup> Mireya Solis, *Dilemmas of a Trading Nation: Japan and the United States in the Evolving Asia-Pacific Order* (Washington, D.C.: Brookings Institution Press, 2017).

<sup>2</sup> Adam P. Liff, "Unambivalent Alignment: Japan's China Strategy, the U.S. Alliance, and the 'Hedging' Fallacy," *International Relations of the Asia-Pacific* 19, no. 3 (2019): 453–91.

that have started to characterize Asian regional economic partnerships. One of the strengths of the book is that it gives Japan more agency and credit for its regional policy and places its strategy in an interesting domestic political economy story about new and “disembedded” relationships between the Japanese government and business.

As all good pieces of scholarship do, this book introduces important new avenues of research. The voices and roles of the private sector are somewhat muted in the text. In the chapter on trade strategy, for example, Katada argues that the state, rather than the economic interests of the private sector, are driving Japan’s regional free trade agreement (FTA) strategy—a point of departure from the more integrated and bilateral strategy of the country in the past. She offers two points of evidence that are worth further interrogation as they provide additional insight into Japan’s strategy: a low FTA utilization rate and a seeming lack of eagerness to swiftly negotiate an FTA with China, despite early desire to do so from the business community (chapter 5).

FTAs often have low utilization rates, in part because many are “cut and paste” agreements rather than completely novel texts. They try to cover a broad swath of industries in the context of ongoing negotiations, even if those industries are not key in that specific bilateral economic relationship. A UN Conference on Trade and Development report found that European Union FTAs have comparatively high utilization rates, with the amount of actual trade covered ranging from 40% to an astounding 90%. However, this does not reflect the actual number of companies utilizing the agreement, which analysts hypothesize is likely low, with small and medium-sized firms not taking advantage of new trade opportunities.<sup>3</sup> Similarly, with the Association of Southeast Asian Nations (ASEAN) the smaller firms that make up the majority of the Southeast Asian economies rarely utilize FTAs.<sup>4</sup> All of this is to say that the low utilization rates by Japanese firms of the freshly negotiated agreements does not necessarily indicate passivity or a lack of representation of their interests at the table. Most-favored-nation rates in Asia are already low, and so the benefits of newly negotiated trade agreements often take time to surface. Katada rightly points out that many of Japan’s FTAs are more like investment treaties: they address investment

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<sup>3</sup> National Board of Trade (Sweden) and the United Nations Conference on Trade and Development (UNCTAD), *The Use of the EU’s Free Trade Agreements: Exporter and Importer Utilization of Preferential Tariffs* (Stockholm: National Board of Trade, 2018).

<sup>4</sup> Tulus Tambunan and Alexander C. Chandra, “Utilisation Rate of Free Trade Agreements (FTAs) by Local Micro-, Small- and Medium-Sized Enterprises: A Story of ASEAN,” *Journal of International Business and Economics* 2, no. 2 (2014): 133–63.



dispute settlement and shared production standards and conditions, in addition to the reduction of tariffs or other trade barriers (chapter 5).

The second piece of evidence is the lack of more aggressive FTA negotiations with China, the largest trading partner and arguably the most important investment destination for Japanese multinational corporations. While I agree that Japanese firms would prefer a high-quality agreement with China that protects intellectual property, sets production standards, and above all establishes a dispute settlement mechanism independent of the Chinese judicial system, there is a broad consensus that these negotiations will be difficult and time-consuming. Why is there no China-Japan agreement, despite the clear economic benefits? Diplomacy is difficult, made more so by intermittent tensions over territory and historical memory, and businesses are wary of going all in with the state, especially if the negotiations are sensitive. Japanese businesses are reluctant in these times of tensions to involve the state in reducing their political or economic risk, fearing a backlash in China.<sup>5</sup>

The geographic choices of FTAs fit into the state-led liberal strategy framework that Katada introduces. They also mesh well with the broader business strategies of the Japanese private sector, and I am skeptical that business is as quiescent or “disembedded” as Katada argues. The business community, as represented by the more conservative Japan Business Federation (Keidanren) or the more outspoken Japan Association of Corporate Executives (Keizai Doyukai), is committed to a regional strategy for manufacturing and production. Moreover, particularly for large companies with investment contracts, Japan is in fact often directly competing with China and desires these preferential trade and investment agreements to increase the attractiveness of Japanese offers. As Katada describes in the section on how Japan has responded to the challenge of the Asian Infrastructure Investment Bank and Belt and Road Initiative (BRI), this dynamic is acute in the case of infrastructure development in Southeast Asia, where Japan has suffered painful losses to China (pp. 179–82). In the case of competition with BRI, we do see the state and private sector working in tandem to promote “high-quality” Japanese infrastructure contracts abroad.

One alternative hypothesis is that the state’s actions are already in concert with the interests of the (large and organized) business community in Japan, and so businesses are saving their limited resources for other

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<sup>5</sup> Kristin Vekasi, *Risk Management Strategies of Japanese Companies in China: Political Crisis and Multinational Firms* (Abingdon: Routledge, 2020).

lobbying efforts. Nevertheless, this is an interesting avenue for future research. Katada's state-led liberal strategy framework is a compelling one, and it will be fascinating to track how Japan's private sector continues to adapt to and influence it. ◆

## Repositioning Japan's Narrative as the Economic Order Evolves

*Shihoko Goto*

The all-too-common narrative for Japan today is that the country's economic heyday is over. Even though it remains the world's third-largest economy in terms of GDP, the prospect of holding on to that position seems increasingly unlikely. Indeed, the question usually raised nowadays is when, not if, Japan's global economic standing will falter, as other Asian countries such as India and Indonesia thrive. From an increasingly graying population to a persistently high debt-to-GDP ratio, the challenges facing Japan's economic regeneration seem formidable at best and insurmountable at worst. Yet, at the same time, expectations for Japan to do more to ensure stability across Asia are on the rise, particularly as its longest-serving prime minister Shinzo Abe had ambitions for the country to take on a greater role in defining new rules of international economic engagement, rather than simply being a follower of rules.

In *Japan's New Regional Reality: Geoeconomic Strategy in the Asia-Pacific*, Saori Katada argues that Japan's best days are far from over and contends that the country has succeeded in redefining itself by overhauling some of the formulas that led to its initial postwar economic success in order to meet its strategic objectives in the 21st century. To that end, Japan has been repositioning itself as an economic power in a way that reflects the shifting political dynamics of the region. One of Katada's core arguments is that the shift in the global order has made an important impact in re-establishing Japan's own worldview and ambitions as an Asian power. Propelled by postwar reconstruction efforts and focused on economic regeneration while under the U.S. security umbrella, Japan achieved dazzling results with its model for economic development that other East Asian countries came to emulate from the 1960s to the early 1990s.

This model, however, was actually the period in which Japan was effectively an emerging economy. One of the most striking arguments Katada makes is that Japan "shed its developmentalist shell" (p. 190) that depended on state support to be competitive during the height of its economic power. Not until the new millennium did it emerge as a country fully committed to promoting the liberal economic order that had initially allowed it to flourish,

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precisely because of its protectionist policies to limit global competition. This metamorphosis from a *de facto* developing economy into a truly globalized, competitive economy also led to a clear divide between companies that could compete internationally without government intervention and those that struggled without state assistance. Katada makes the case that in their emergent stage Japanese businesses needed government support to thrive, but as they blossomed into multinational corporations, it was the Japanese government that then needed their support in order to pursue its strategic vision of economic foreign policy. In fact, the decoupling of the government-business relationship was seen not only on the domestic front but also overseas, including in strategy toward official development assistance.

Katada also makes a clear case for the shift in Japan's comprehensive economic strategy as a result of changes in the geoeconomic landscape of the Asia-Pacific, most notably the rise of China and the steady disengagement of the United States as a Pacific power. Certainly, Washington's withdrawal from the Trans-Pacific Partnership (TPP) trade agreement actually provided a hitherto unprecedented opportunity for Japan to take leadership in ensuring the adherence of established rules and an economic order that had been critical for its own rise. Yet Katada points out that lobbying efforts by Japanese businesses for Japan to remain fully committed to the TPP were notably absent. Instead, like the Obama administration, it was the Abe government that pushed for the deal to move forward to ensure Japan's geoeconomic influence as much to secure future business opportunities.

It is perhaps in articulating the particularly challenging situation in which Japan finds itself *vis-à-vis* China that the book shines most, given Katada's nuanced approach to understanding the evolution of Sino-Japanese economic relations. For instance, in assessing the geoeconomic rivalry between Japan and China, she highlights Tokyo's overlapping interests with Beijing. She also points out that during the 1997–98 Asian financial crisis China, too, had been open to Japanese efforts to encourage regional financial cooperation that would be based largely on existing rules that governed international financial institutions, albeit supported solely by regional countries. It was only after the 2008 global financial crisis that an emboldened China began looking to take on a leadership role in economic governance across Asia and beyond, challenging Japan's standing as well as that of the United States and other industrialized nations.

Katada's well-structured book takes a comprehensive approach to detailing fundamental shifts in the geoeconomic, trade, investment, and foreign assistance landscape that have shaped Japan's foreign

economic policy. Its purpose, of course, is to identify the factors that have come to define Japanese economic ambitions over the past two decades, and it is not a work that looks to offer policy prescriptions for the future per se. Yet the book could have benefited from addressing some of the issues that will shape Japan's economic realities and the geoeconomic landscape of the Asia-Pacific moving forward. In particular, it does not address the challenges of the changing nature of economic power itself and the resulting disruptions to the global order—most notably the rise of the digital economy and the difficulties of defining trade rules for new industries.

Certainly, the need for trade rules that include the services sector was one of the key factors driving the development of the TPP and made it an ambitious agreement. Katada argues that corporate Japan had not been actively pushing for the agreement, despite tackling the hurdles of nontariff barriers. But the book does not go into detail as to why the deal's foray into new territory did not elicit as much enthusiastic support from Japan's competitive multinationals as it could have.

Meanwhile, amid greater competition between the United States and China to establish the rules of technology and the competition over data governance, Japan has struggled to define itself as a rulemaker, not least by the lack of momentum to follow up its Osaka Declaration on Digital Economy following the 2019 G-20 Osaka summit. Granted, India, Indonesia, and South Africa did not sign onto the declaration, but gaining China, the United States, and the European Union as signatories was undoubtedly a coup for Japan, as the divide over the rules of governing the global digital economy continues to grow.

In a world that is increasingly shying away from globalization and turning more toward regional integration, Japan has a unique role to play in both counterbalancing China's economic aggression and ensuring economic stability across Asia through a commitment to transparent economic governance. *Japan's New Regional Reality* argues that the country has emerged from the height of its economic dominance actually stronger than it had been at the peak of its global power. Although its GDP growth rate is no longer as staggering as it once was, nor will it return to those dizzying heights, Japan's blue-chip companies are now able to compete globally on their own. What's more, Tokyo is now more fully committed to the rule of law and the international liberal economic order as its competitiveness has been secured. At the same time, Japan's own experience as a so-called developmental state allows it to be a mediator between countries like the United States that press for liberalization and rapid change and emerging economies that can be enticed to embrace the liberal order more gradually. ◆

## How Neomercantilist Japan Became a Leading Defender of Economic Openness

*William W. Grimes*

Saori Katada's new book *Japan's New Regional Reality: Geoeconomic Strategy in the Asia-Pacific* provides the best guide to Japan's contemporary foreign economic policy available today. While the book is written in a modest tone that belies its ambition and importance, there is much to learn here about Japan, and its role in Asia and the world, that is new and exciting. *Japan's New Regional Reality* deserves to be read by both scholars and practitioners with an interest in the Asia-Pacific's political economy.

The book combines analysis of Japanese domestic political economy, the international environment, and the interactions between the two. Unlike most authors, Katada is equally comfortable with domestic and international politics as well as—perhaps more unusually—a full range of economic issues from trade and investment to finance and development assistance. Such thoroughness is what makes the story so compelling. The book is not an exercise in theory-building or methodologically driven political science; rather, it describes and analyzes in detail, and from multiple angles, a sea change in Japan's political economy.

Japan, in Katada's telling, is a country whose role in the world economy and economic governance has been transformed by globalization and the rise of China. It is “not the same Japan that used to engage in trade conflicts with the United States twenty-odd years ago, and this new Japan influences the Asia-Pacific region in ways that are quite different from the past” (p. 1). It has turned away from the neomercantilism of the Japanese miracle and become a dedicated pillar of the liberal international order. The book analyzes both the reasons that the Japanese political economy has been transformed and the implications for Japan's role in the world. Equally important, Katada takes seriously the idea that the Japanese state has acted strategically, and not just reacted to either U.S. pressures or domestic interest group politics.

The shift of Japanese business preferences from neomercantilism to liberalism was partly driven by global liberalization pressures outside the

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country in the 1980s and early 1990s. These included U.S. *gaiatsu* (external pressure) on Japan to lower trade barriers and reduce anti-competitive practices within Japan as well as the growing ambition and reach of global and regional trade rules. These pressures reduced the Japanese state's ability to protect and nurture domestic companies. Equally important, however, was the rapid appreciation of the yen after the 1985 Plaza Accord, which created incentives for Japanese firms to procure offshore production at the same time that other East Asian economies in China, South Korea, and Southeast Asia were dismantling barriers to trade and investment in order to advance their own industrialization goals. As Katada puts it, Japanese businesses became "disembedded" (p. 5, and discussed in chapter 3) from the cozy political and economic networks that had long characterized the relatively closed domestic economy.

In Katada's telling, however, Japan is not merely a poster child for globalization and the triumph of market forces. Geoeconomics also looms large in this story. Three threads come together in chapter 3: growing regional economic integration, the loss of trust in U.S. benevolence, and the rise of China. First, the growth of regional production networks in East Asia meant that Japan's outward economic engagement was no longer U.S.-centered. It also meant that Japanese companies became disembedded from their domestic supplier networks and stable labor-management systems. This shifted the purpose of Japanese foreign economic policy from appeasing U.S. demands toward nurturing complex value chains in which Japanese firms were often the key players. Second, with the 1997 Asian financial crisis, Japanese policymakers became aware that their priorities in Asia differed significantly from those of the United States, making apparent the need for regional cooperation in which Japan could play a key role in providing leadership and public goods. Finally, the rise of China as an economic and political power has both enticed and frightened Japanese leaders. They wanted, and still want, to gain from growing Chinese prosperity and productive capacity while also hedging against the threat of Chinese regional dominance. In responding to these three geoeconomic factors, Japanese leaders have recognized the utility of developing and strengthening multilateral rules that could reduce uncertainty within supply chains and external investments, while also locking China and the United States into a rules-based order that constrains them from acting arbitrarily. And Japan was in a position to shape those rules, both regionally and globally.


This combination of domestic and international factors, Katada argues, has played out consistently across multiple issue areas. As a leading authority on East Asian free trade agreements, Katada is particularly convincing in her analysis of Japanese trade policy. She shows the ways that successive Japanese leaders have recommitted not only to working within the World Trade Organization but also to extending its effective reach into more cross-border economic interactions—including plurilateral agreements on government procurement and information technology trade. Moreover, Japan, which had entered into exactly zero free trade agreements (FTAs) prior to 2000, has become an enthusiastic participant in numerous bilateral and multilateral FTAs since then, including two of the most ambitious multilateral agreements in the world: the Trans-Pacific Partnership (which became the Comprehensive and Progressive Agreement for Trans-Pacific Partnership when the United States withdrew) and the Japan–European Union FTA. Japan’s FTA strategy, as Katada shows, clearly reflects the shift in preference from neomercantilism (with early FTAs focused mostly on goods trade while maintaining agricultural and other protections) to liberalism (with chapters that address investment, competition policy, labor and environmental policy, digital services, and intellectual property, among other issues).

While trade and investment policies were essential elements of protection in the past, foreign aid and development assistance were key elements of outward-looking neomercantilism. Katada shows how Japanese aid in East Asia shifted from trying to ensure markets and investment destinations for Japanese firms to trying to support economic institutions that enable regional production networks. While commercial interests of Japanese firms have not disappeared from the equation, she illustrates how aid policy has become oriented less toward promoting the interests of particular companies and more toward policies, institutions, and projects that reflect the new Japanese geoeconomic strategy. This has showed up recently, if not successfully so far, in Japan’s Quality Infrastructure Investment program, which has sought to create an attractive alternative to China’s Belt and Road Initiative.

All in all, Katada makes a convincing argument for the enduring importance of geoeconomics as well as for the ways in which the Japanese political economy looks considerably different now from the past. Believers in a dated image of “Japan, Inc.” will not find much that they recognize here. Businesses are disembedded from the stable political, economic, and labor networks that were long imagined as central to the Japanese model;



the bureaucracy is fragmented, with economic ministries less dominant and often favoring liberalization; and the state's foreign economic policy strategy is about embedding Japan and Japanese firms in rules-based regional and global networks.

For me, the one disappointment is not the fault of the book itself; rather, it is that American readers have become so focused on China and U.S.-China relations that this book may not get the notice it deserves. That is a pity, as the future of the Asia-Pacific will be built not only on superpower politics but also on the decisions and efforts of other countries in the region, especially Japan. 

**Author's Response:**  
**Positioning Japan's State in a New Regional Reality**

*Saori N. Katada*

I deeply appreciate the insightful and inspiring reviews of *Japan's New Regional Reality: Geoeconomic Strategy in the Asia-Pacific* in this book review roundtable by four of the most distinguished scholars in the field. These reviews are encouraging as they all highlight the continued importance of Japan's engagement in the Asia-Pacific as the third-largest economy in the world, when many others seem to have either forgotten or dismissed Japan's geoeconomic agency. This roundtable (and the book's publication) is quite timely as Shinzo Abe, Japan's longest-governing postwar prime minister (December 2012–September 2020), just stepped down in September. Abe is viewed as the architect of Japan's active foreign economic policy. It is thus an opportune time to take stock of the new reality that has emerged for the country while it has been in the shadows of China's rapid rise for the last two decades. The reviewers' helpful comments and intriguing discussions have led me to reflect further on how to position Japan's foreign economic policy within regional dynamics and contemplate how the government can successfully execute its proactive strategy.

*Regional Dynamics*

*Japan's New Regional Reality* presents Japan's state-led liberal strategy and examines vital factors that shifted Japan's engagement with the Asia-Pacific away from the mercantilist foreign economic policies of the past. The reviewers, in one way or another, have asked whether this new strategy is effective. In assessing how Asian neighbors have received Japan's strategic endeavors, T.J. Pempel is understandably dubious that "countries in the region are anxious to accept Japan's leadership in forging a region-wide rules-based liberalism." While it is worrisome to observe the stalled free-trade negotiations between Japan and South Korea and their recent trade conflict over high-tech materials, I see three factors working in favor of Japan taking the lead in facilitating the rules-based liberal economic order in East Asia. First, practices supporting high standards are welcomed by advanced economies in the region such as South Korea as Korean

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businesses operate and expand their own supply and production networks in Asia. We see the convergence of interests between South Korea and Japan in support of a new generation of investment agreements—for example, through the China-Japan-Korea trilateral investment agreement negotiations that successfully concluded in 2012.<sup>1</sup> Even China and Japan, as two major creditor countries in the region, have collaborated closely to lead the Chiang Mai Initiative, despite their heightened tensions in other domains.<sup>2</sup>

Second, Shihoko Goto asserts that, due to its own development experience, Japan has a unique role to play as a mediator of the economic change occurring throughout the region. I fully agree with her observation, which is another way to position Japan's state-led liberal strategy. Unlike the United States, which tends to demand liberalization and rapid economic change, Japan, drawing on its own experience as a late industrializer, understands the difficulty of this process. For generations, the Japanese government has accumulated experiences—both successful and painful—on how to respond and adjust to liberalization pressures. Therefore, Japan is much more willing to allow time and space for emerging economies in the region to embrace the liberal order. Finally, and in contrast to both China's "in your face" economic presence in Southeast Asia through its Belt and Road Initiative and recent U.S. disengagement by the Trump administration, Japan's embrace of regional institutions and economic outreach has made the country a welcome regional leader. In the annual survey conducted by ASEAN Studies Centre at the ISEAS–Yusof Ishak Institute in Singapore, Japan received the highest marks as a trustworthy country, with 61.2% of ASEAN elite respondents saying that they are either confident or very confident that Japan "will do the right thing to contribute to global peace, security, prosperity and governance." Among those who trust Japan, the majority (51%) have reasoned that Japan "is a responsible stakeholder that respects and champions international law."<sup>3</sup>

Despite the solid position Japan has cultivated in regional economic governance, the challenges continue as the government strives to maneuver its geo-economic strategy between the United States and China. As Pempel

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<sup>1</sup> Gregory P. Corning, "CJK Investment Agreements in East Asia: Building a Bifurcated Investment Regime," *Asian Politics and Policy* 6, no. 2 (2014): 285–306.

<sup>2</sup> William W. Grimes, "East Asian Financial Regionalism in Support of the Global Financial Architecture? The Political Economy of Regional Nesting," *Journal of East Asian Studies* 6, no. 3 (2006): 353–80.

<sup>3</sup> Siew Mun Tang et al., *State of Southeast Asia: 2020 Survey Report* (Singapore: ISEAS–Yusof Ishak Institute, 2020), 49–50. The level of trust (confident or very confident) for China was 16.1%; the United States, 30.3%; and the EU, 38.7%.

points out, how Japan balances between these great powers will essentially determine the effectiveness, and even continuity, of the country's new geoeconomic strategy in the Asia-Pacific. Certainly, Japan does not have liberty to "shift its leverage back and forth" between the United States and China, as evidenced by how Japan's leadership has struggled with the isosceles triangle relations among the three states (where the U.S.-Japan relationship is the shortest leg).<sup>4</sup> Meanwhile, continued interdependence and thickening institutional networks have enmeshed participating states and created higher stakes in maintaining stability and order for the regional economy. Although Japan might not be able to pivot as easily as the image in my book of the country's "pivotal state" role suggests, it continues to function as an important regulator in an era of great-power competition and reflects the strong desire among all the smaller states to hedge and avoid choosing between China and the United States.<sup>5</sup>

In sum, Japan's advantage lies in its ability to bridge the divide of liberal and statist development approaches. The effectiveness of its geoeconomic strategy will only increase as the country makes itself an indispensable actor in regional cooperation and institution building.

### *Government-Business Relations*

The protagonist of *Japan's New Regional Reality* is the Japanese state, comprising the political leaders and elite bureaucracy that formulate and implement geoeconomic strategy through measures ranging from mega free trade negotiations to infrastructure project financing. Nonetheless, Japanese business are, as identified by Kristin Vekasi, important actors in defining the contour of what the state can and cannot do. Business engagement is one of the vital factors shaping the unique path that the government took in each of three issue areas covered in the book: trade and investment, money and finance, and foreign aid and development. I fully agree with William Grimes that Japan has already shed its dated "Japan Inc." model, as a result

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<sup>4</sup> Since the normalization of Japan's relationship with the People's Republic of China in the 1980s, Japanese leaders such as Kakuei Tanaka have discussed how to manage this triangle. Some have maintained that the isosceles triangle is the most stable, while others have argued that Japan should enhance its tactical position by moving the relationship closer to an equilateral triangle. For a concise summary of the debate, see Yang Chun Chih and Aoi Tsumura, "Nichibei domei kankei no henshen to kongo no Higashi Ajia chiiki no chitsujō" [Evolution of the U.S.-Japan Alliance and the Future of East Asia], *Mondai to kenkyū* 40, no. 2 (2011): 63-91.

<sup>5</sup> A recent proclamation of this view was given by Singaporean prime minister Lee Hsien Loong. See Lee Hsien Loong, "The Endangered Asian Century: America, China, and the Perils of Confrontation," *Foreign Affairs*, July/August 2020, 52-64.

of the loosening of the strong scrum in which the Japanese government used to huddle with big businesses. The government, nonetheless, still cares deeply about the success of Japanese companies as it strives to regain economic growth. It is precisely for the benefits of globalized Japanese businesses that the government works to install liberal economic rules and high standards for the entire region. In that sense, my view largely agrees with Vekasi that “the state’s actions are already in concert with the interests of the (large and organized) business community in Japan.” As I suggest in the book’s conclusion, Japan’s new state-led regional geoeconomic strategy represents “a possible avenue for the state to reinvent its usefulness in the regional setting” (pp. 190–91).

It is, of course, not easy for the Japanese state to reinvent itself. Pempel is correct in suggesting that the government has faced a severe shortage of financial and economic resources, and it continues to struggle to entice the private sector to come on board with geoeconomic ventures. For example, the government has for some time tried to expand infrastructure exports through public-private partnerships, but the private sector has been reluctant to participate. Currently, Japan cannot outspend China, and its market is not as large or open as that of the United States. In the end, Japan’s new strategy is couched on being a less resource-intensive alternative for regional rule-making and institution-building, taking advantage of conflicting geoeconomic objectives of the two great powers.

### *Japan and the Future of the Asia-Pacific*

What does the future hold for Japan’s state-led liberal strategy following the resignation of its most visible promoter, Prime Minister Abe? As I argue in the book, the gradual transformation of the politico-economic institutions have supported the shift of Japan’s geoeconomic strategy, and these institutions have come to place more power in the hands of the political leaders. There is no question that Abe masterfully used the Japanese state’s new policymaking structure. He capitalized on the longevity of his leadership to take charge of saving the Trans-Pacific Partnership and to lead the G-20 Principles for Quality Infrastructure at the 2019 Osaka summit. Despite his foreign policy successes, however, Abe did not personally invent Japan’s new state-led liberal strategy. The country’s institutional transformation has been ongoing for decades. He was, in a way, at the right place at the right time. Hence, the new prime minister, Yoshihide Suga, is in a good position to continue the course.

Both regional geoeconomics and the institutions surrounding Japan's foreign economic policymaking are ready for the government to take the lead, and barring any path-changing crises, this window of opportunity will remain open for some time. Actors and institutional structures have emerged in such a way that Japan will continue to have both the opportunities and motivation to follow the current path, even though the ongoing transformation will be slow, selective, and possibly rocky. On this path, Japan has two advantages. One is the continued rivalry between the United States and China, which opens space for Japan to continue its active geoeconomic strategy and respond to calls from other states. The second advantage is its experience of being a late industrializer and late liberalizer that achieved maturity. The contemporary Japanese economy depends on the open and rules-based regional economic order to thrive. The new developing economies in Asia are likely to draw lessons from Japan's development experience and adopt to the changing regional reality. ◆