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AMERICA, JAPAN, AND APEC: THE CHALLENGE OF LEADERSHIP IN THE ASIA-PACIFIC

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FOREWORD

President Clinton's attendance this month at the annual meeting of the leaders of the Asia-Pacific Economic Cooperation (APEC) forum in Osaka, followed by his summit meeting with Prime Minister Tomiichi Murayama in Tokyo, calls attention to how significant APEC has become in post-Cold War international relations and how central the U.S.-Japan relationship is to the future of APEC.

APEC, whose membership links the Western hemisphere with Asia and spans the world's largest and most dynamic regional economic market, is the most significant new international institution in post-Cold War Asia that attempts to address new realities in the Pacific. But this institutional innovation is a paradox. On the one hand, it has become a regional focus for trade policy planning. On the other hand, it gives no recognition of the interdependence of economic prosperity and security. Furthermore, there are no formal procedures for making decisions and no sanctions or guidelines for conflict resolution. APEC, with its narrow economic parameters and rudimentary organizational features, thus far lacks the essential requirements of an enduring community of nations.

The papers in this issue of the NBR Analysis address this paradox and the issue of linking economics and security in determining the future of the region. Donald Hellmann, the director of the APEC Study Center at the University of Washington and chairman of the U.S. Consortium of APEC Study Centers, considers the future role of the United States, whose military presence in the Pacific has helped to allow the transformation of Asia since World War II. Professor Hellmann stresses the need for linking economics and security and highlights the indispensable role of American leadership in creating a new institutional framework.

Akio Watanabe and Tsutomu Kikuchi present a Japanese perspective which, while maintaining the importance of an American role, argues in favor of an evolutionary approach to institution-building. This paper is particularly valuable since Professor Watanabe was a leading member of a Japanese government panel that made recommendations in 1994 for Japan's future defense strategy. He is presently heading a study for a leading Japanese think tank on options for future regional defense regimes.

My paper offers an analysis of the post-Cold War changes in Japanese foreign policy and argues for a revised U.S.-Japan alliance to reflect the new realities.

These papers were presented on August 28-29, 1995, at a workshop in Seoul cosponsored by the APEC Study Center at the University of Washington and The National Bureau of Asian Research, and organized by the Center for International

Studies at Seoul National University and the Korea Foundation. They were also presented at a follow-up conference on September 21-22, 1995, in Tokyo in collaboration with the Japanese Ministry of Education, Science, and Culture, and the Institute of Developing Economies.

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President
The National Bureau of Asian Research

AMERICA, APEC, AND THE ROAD NOT TAKEN: INTERNATIONAL LEADERSHIP IN THE POST-COLD WAR INTERREGNUM IN THE ASIA-PACIFIC

Donald C. Hellmann

The Asia-Pacific Economic Cooperation (APEC) forum is at once promising and seriously flawed. Born in the year that the Cold War died, it has flourished as the only institution that encompasses the region destined to become the next center of the global political economy. Despite a narrow economic focus, a tiny operating budget, no real structure for decision-making, and a membership that is fundamentally diverse in terms of wealth, culture, politics, and the ways in which its economies operate, APEC has nevertheless prospered and grown as a forum for communication in this current interregnum between the end of the Cold War and the still inchoate new international order.

The flaws of APEC as a viable international organization in the long term are self-evident, fundamental, and potentially fatal. One flaw is its narrow focus. By dealing solely with economic matters, APEC not only ignores political-security issues, but essentially leaves in place the existing Cold War security arrangements in which the military burden falls on the United States. These arrangements, although officially accepted by the United States,¹ are based on assumptions regarding threats, force structure, and diplomatic instruments (i.e., bilateral security treaties) that are rooted in the global strategic challenge of the Cold War, not in the narrower constabulary security issues that dominate Asia and the world in the post-Cold War era. Problems of burden-sharing, especially but not exclusively with regard to Japan, have reached proportions that are extreme and unsustainable in the long term. Unless it is assumed that peace will break out permanently or that future U.S. security policy will simply be an extension of the past, APEC must be part of a new Pacific and/or global security regime.

A second weakness is that APEC is not fully rooted in the legacies of the turbulent history of Asia of the last hundred years. During the 20th century, East Asia has been almost continuously beset by radical and rapid change: war, revolution, and now protracted and unprecedented economic growth. Two countries—China and Japan—have played and continue to play central roles in this ongoing Asian revolution. To succeed, APEC must flourish in the shadow of 20th-century history, and modest goals like a timetable for free trade must be seen against the profound legacies of the past and the current challenges posed by the existence of two traditionally competitive Asian superpowers.

¹ See U.S. Department of Defense, *United States Security Strategy for the East Asia-Pacific Region*, Office of International Security Affairs, February 1995, *passim*.

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The challenges Japan and China present are daunting. Japan, a global economic superpower and the world's largest creditor, has entered the current era with enormous economic resources but remains almost wholly devoid of international legitimacy, i.e., a capacity for leadership that transcends economic power alone. Tokyo has stood on the sidelines militarily during the post-Cold War era and still has to come to grips with the bitter legacy of Japan's aggression during the 1930s and 1940s. Moreover, its domestic political problems—the party system is in turmoil and the bureaucracy is efficient but rigid—inhibit innovation in foreign policy. Japan is not now in a position to lead in Asia.

China, too, suffers from the burdens of its history. As Asia's biggest and most rapidly developing nation and largest military power, it is currently in the midst of a domestic transfer of political power without an established framework to handle the succession. China remains a communist state in a post-communist world, and it lacks the legitimacy needed for international leadership. It is both blessed and burdened by the fact that overseas Chinese dominate most of the economies in Southeast Asia and are investing ever more of their capital in mainland China. How Japan and China integrate themselves into the international system will fundamentally shape not only APEC and the Asia-Pacific region, but the structure of the global system itself.

In its conception, operating procedures, and discussions about its future, APEC has an inward-looking and regional cast. Stress tends to be on the enhanced intraregional patterns of trade or APEC's uniqueness ("Asian-ness"), making the forum a counterpoint to the more rule-based European Union and North American Free Trade Agreement (NAFTA). In fact, APEC is important not because it is a new model for regional cooperation but because the Asia-Pacific region has moved to center stage in the global economy. If APEC is to flourish, it is imperative to address frontally and fully its role in the global economy.

The United States is the nation most capable of providing the leadership needed to transform APEC into an international organization capable of facing the global and regional challenges of the incipient "Pacific century." Why the United States is effectively the only candidate for leadership, why it has not taken the road of international leadership in the Pacific, and how this road may be traveled, are the subjects of this paper.

The Foundations for APEC: America and the Cold War Era in Asia

Virtually all discussions of APEC, its modus operandi, its future, and especially the potential role of the United States give short shrift to the turbulent modern history of Asia and the peculiar features of the Cold War international system within which the foundations for APEC were laid. Rather, emphasis tends to be on economic developments of the last few decades, the uniqueness of Asian cultures, and the inescapable limits they impose on the structure of regional institutions (the Association of Southeast Asian Nations, or ASEAN, is the most frequently cited example), the decline of the American economic presence, and the seemingly inevitable reduction of the American political/military role in a post-Cold War world in which geoeconomics drives international affairs.

If we juxtapose the debate about APEC with similar discussions that took place in Europe regarding its future at a comparable juncture of international upheaval following World War II, the contrast is striking. The European debate displayed an understanding of both the burdens and promise of European and global history, a true sense of vision tempered by realism (as was displayed by statesmen such as Jean Monnet), and a sophisticated and holistic sense of international affairs in which "Economics and politics [were seen as] the seamy side of each other, if only in the sense that any distinction between them is a matter of convenience not

conviction.”² The purely economic visions for APEC and the Asia-Pacific fail to place APEC in the context of either modern East Asian history or the contemporary international political economy, in which nationalism and conflict remain conspicuous features.

It is vital to strengthen APEC because Asia and the Pacific have become important, not because the institution has uncovered a radically new way to foster free trade or because it embodies any intrinsic, uniquely Asian formula. Furthermore, Asia became important because of the political and economic revolutions that occurred during the second half of the 20th century under Pax Americana in the Pacific, and APEC is rightly viewed as the organic outgrowth of the processes of political-economic change that occurred during this period. At the same time, the Cold War era itself must be seen against the backdrop of international relations in the past two hundred years.

The second half of the 20th century was dominated by the Cold War, a protracted global confrontation between the United States, the Soviet Union, and their allies on ideological, geopolitical, and economic planes. The prospect of a nuclear holocaust forestalled the physical devastation previous world wars had brought, but the Cold War did create updated variants of empires (the Eastern and Western blocs); legitimated the framework for the remarkably successful American-led global economic order; cast its shadow over the occasions and the forms of war; and severely (in the case of the Soviet Union, fatally) affected the politics and the economies of the two superpowers. Not surprisingly, the conflict's sudden end after 40 years created many of the fundamental discontinuities that followed the two previous great wars of this century; it also provided the occasion and the need for statesmanship.

As Robert Gilpin and Raymond Aron have repeatedly pointed out, after every other modern hegemonic war (the Napoleonic Wars and World Wars I and II), statesmen from the coalition that won (Clemens von Metternich, Woodrow Wilson, George Marshall, and others) moved decisively to shape the still indeterminate new world order by creating institutions to manage the radically different distribution of political, economic, and military power in terms of the values which the victors hoped to instill in the vanquished. The failure of the United States to do so after the Cold War is historically unprecedented.

There are, however, certain features of the current international situation that are unique and do pose barriers to creating the kinds of institutions that were put into place in all of the previous periods of international upheaval following hegemonic wars. In the past, the efforts to establish a framework for peace and prosperity appropriate to the new era centered on ideas and institutions that could prevent a recurrence of the spasm of violence that marked the end of the previous age. After 1945, for example, peace was to be secured by replacing the political and economic nationalism that had given rise to World War II with a collective security arrangement (first the United Nations and then Pax Americana), the political and economic democratization of Germany and Japan, and the creation of an open, liberal, and multilateral world economic order.

The current situation is different for several reasons: (1) the end of the Cold War came not from a military victory but from the cataclysmic political and economic collapse of European and Soviet communism, and this has muted the imperatives for building a new world order; (2) the more diffuse distribution of military and economic power and the absence of a single, obvious threat to peace complicate and inhibit efforts to institutionalize management of the global political economy; (3) the United States was itself enervated by the protracted Cold War and has been led not by decisive statesmen, but by politicians like former President George Bush who confessed to trouble with “the vision thing”; and (4) it is not the core industrial

² Richard Mayne, *The Community of Europe: Past, Present and Future*, New York: Norton Publishing, 1963.

states but the nations on the periphery, with a surfeit of the ingredients fostering conflict (e.g., nationalism, ethnicity, poverty) and access to weapons of mass destruction that will constitute the most likely arenas for conflict in the future. Because conflict is more likely on the periphery of the system and *within* states as much as between them, most post-Cold War security threats are constabulary, not strategic.

Finally, the persistence of the nation-state system as the core of global affairs, together with enormously enhanced economic interdependence, ensures that the economic component in national security calculations will be magnified and that domestic politics will continue to be integral to all foreign policy calculations. This post-Cold War phenomenon, which is of particular relevance to APEC and the Asia-Pacific, may be called the “paradox of interdependence.” It is paradoxical because the enhanced scope of international economic interaction has created new competitors with national governments for leadership in foreign policy (e.g., multinational corporations and international organizations) while strengthening the role of economic interest groups within nations in foreign policy-making—thereby encouraging a kind of populist economic nationalism in which the role of the national government is enhanced. In one sense, APEC may be seen as an attempt to resolve this paradox.

Although these characteristics thus limit the capacity of any nation to shape a new international order, the United States’ failure to lead in the creation of new institutions to manage the still fluid global political economy has greatly contributed to the environment of indeterminacy and complexity in contemporary world affairs. Despite the frequent charge by Asian nations that the United States is too aggressive in seeking to institutionalize APEC, what is distinctive about the American role in both the global and regional systems is just the opposite when viewed in historical perspective. The United States, the leader of the coalition that won the Cold War and the world’s most powerful nation, has not provided enough leadership. This abdication of leadership is especially noteworthy in Asia, where regional prosperity, the preeminent military presence of the United States, and the absence of either an alternative regional leader or an established regional institution present an opportunity favorable for statesmanship.

Although the Cold War is over, two of its unique features still remain in the post-Cold War interregnum. These features are particularly important for the United States in Asia. First, there has not been a multilateral military alliance like NATO in the Pacific, and bilateral arrangements with South Korea and Japan notwithstanding—regional containment was essentially supplied unilaterally by the United States. American economic relations with Asia during the Cold War also expanded without the tempering influence of regional institutions. The absence of overarching institutions is not rooted simply in the cultural complexity and uneven levels of economic development found in the region, but rather is symptomatic of an unadmitted but underlying feature of American policy toward Asia during the Cold War: Asia was not (and still is not) accorded either the priority or the sophisticated attention that Europe has commanded since 1945. “Wanted: An Asian Policy,” a lament heard in Washington in the years immediately after World War II, is still appropriate today despite the American interest in APEC, the existence of economic ties that rival those with Europe, and the decisive role for the United States as a military balancer in the region.

Because the United States has not established a coherent, long-term strategic vision for the world or the Asia-Pacific region, the lacunae in America’s Cold War policy toward the Pacific (i.e., the absence of regional institutions, an underdeveloped sense of priority) have been car-

ried over into the post-Cold War era.³ Although the addition of an annual meeting of the heads of state has implicitly broadened the purpose of APEC, as long as it remains narrowly economic in its focus and devoid of decision-making procedures beyond consensus, it remains an unlikely venue for creating a comprehensive and coherent framework for peace and prosperity in the Pacific. The legacies of America's Cold War strategy in Asia and the nationalist drift in American domestic politics may inhibit the capacity for American leadership in the Asia-Pacific, but they do not prevent it. Moreover, even a casual inspection of the legacy of the Cold War era for the other countries in APEC underscores that no nation or combination of nations, other than the United States, has the power, the legitimacy, or the international diplomatic experience to provide the leadership appropriate to set the rules and create the international institutions needed for a region destined to become the center of the global political economy.

In the five decades since World War II, the pace of political and economic change in East Asia has been dramatic. As of 1945, all of East Asia was ravaged by war; all but Japan and Thailand were colonies or, in the case of China, a quasi-colony. Japan was the only Asian country to have industrialized, and even there the devastation of American bombing made a quick economic recovery seem improbable. These conditions, brilliantly portrayed by Harold Isaacs in *No Peace for Asia*, provide a benchmark for how far and how fast Asia has come, and are fundamental to understanding the ensuing three decades, in which Asia continued to be subsumed by conflict. This was highlighted by the culmination of the century-old Chinese revolution and the two major conflicts of the Cold War, the wars in Korea and Vietnam.

Perhaps the most significant legacy of the Cold War era is the vitality and centrality it gave to nationalism throughout Asia. A legacy of the Western political tradition made universally legitimate only in the United Nations charter, nationalism is the defining concept (and curse) of modern international relations. Economic and strategic interdependence notwithstanding, the age of nationalism has really just dawned in East Asia. Southeast Asian leaders such as Malaysian Prime Minister Mahathir Mohamad predictably and understandably identify themselves as nationalists, even when promoting an egalitarian Pacific community. In Northeast Asia, ethnic and cultural homogeneity plus two divided countries give an even sharper edge to the nationalism manifest in China, Japan, and Korea. The Cold War era enshrined and enhanced nationalism as a conspicuous feature of the Asian-Pacific scene, a feature that any contemporary regional organization such as APEC must address. It also assures that political-security issues will remain an essential dimension of international relations on the Pacific Rim.

None of the countries in Asia has played a major role in the modern international system or in multilateral international organizations. China, long a colonial playground for Western imperial powers, convulsed by the most thoroughgoing revolution in world history, and now a modernizing communist state in a post-communist world, is still in the throes of defining its national identity and cannot be a candidate for leadership in creating a new international system. Korea, a colony until 1945 and still a divided country, will perforce be concerned primarily with its economic development and national reunification. Japan, bitterly distrusted by its Northeast Asian neighbors and with its own tradition of nationalism that leaves little room for "international public goods," on the margin of every major multilateral international organization of which it has been a member,⁴ and bereft of political statesmen, cannot be expected to lead. Indeed, Japan's rise to global economic prominence during the Cold War occurred within an international security "greenhouse" that was made in America. One political by-product of

³ That APEC, the "cornerstone of America's policy toward the Asia/Pacific," was conceived not by an American statesman, but by an Australian prime minister whose initial proposal was to exclude the United States from Asia, clearly illustrates the poverty of foreign policy leadership in Washington in the wake of the Cold War.

⁴ The Asian Development Bank, of which Japan was a cofounder, is an exception, but it has functioned essentially as an arm of Japanese foreign policy.

that greenhouse was rule by a single party throughout the Cold War era, a regime that quickly collapsed after the Cold War ended and that has been replaced by political fluidity inhibiting bold foreign policy initiatives. Japan's capacity to design an independent and constructive role for itself in the international system would be severely limited outside of the "U.S.-Japan economy" and the American security alliance.

ASEAN, which was founded in 1967 as a subregional political organization among non-communist states threatened by Vietnam and China, is seen by some as a potential focal point and model for regional organization.⁵ To be sure, it has evolved into a vehicle for encouraging the largely market-driven economic integration of its member states and provides a venue for multilateral fora (e.g., the ASEAN Regional Forum) to facilitate communication and confidence-building in the political-security area. Despite its growing visibility and success in attracting great powers to participate in its activities, it is improbable that an organization in which the three superpowers in the region (the United States, China, and Japan) are not the central figures can serve as the locus for creating a comprehensive framework for managing the largest and fastest-growing region in the world, and for relating that framework to the global political economy.

The remarkable and ongoing economic growth experienced by all APEC nations during the Cold War era stands (with the Cold War itself) as one of the two most significant international developments in the second half of the 20th century. These remarkable achievements in Asia were made by Asians, but without the liberal global economic order (including access to American markets and technology) and the American security regime sustained throughout the Cold War, this prosperity would not have occurred. *Pax Americana* in the Pacific provided the international framework, strategic as well as economic, that was crucial to the development of the region. To be sure, the United States acted in its own self-interest: to contain communism and to reap the mutual benefits of economic growth in an open economic system. But its main by-products—prosperity and enhanced regional integration—provided a foundation without which APEC could not have been built.

Development in the Asian members of APEC occurred without these nations accepting as *operating norms* the principles of neoclassical economics on which the liberal global economic system was built. This came about partly because many APEC nations were (and are) "eligible" to distort markets because they are "developing economies." It also occurred because the United States gave top priority to security issues in its foreign policy, especially during the 1950s and 1960s, so that the goal of nurturing strong allies superseded the application of free trade principles—leading to the separation of politics and economics. Finally, it came about because the United States did not understand the uniquely successful blend of government leadership and free enterprise that came to characterize first Japan and then the newly industrialized economies (NIEs) as a means of fostering development through export-led growth. Within the greenhouse provided under *Pax Americana* in the Pacific, a new, brilliantly successful species of Asian capitalism emerged that is not congruent with the market-centered concepts underlying the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO).

The contemporary Asia-Pacific international situation and the role of APEC in it are organically related to the revolutionary political and economic developments during the decades since World War II. The legacies of the Cold War era are mixed and paradoxical. Economically, the prosperity that was nurtured under *Pax Americana* in the Pacific propelled the region into a central global role. However, this prosperity also created three economic dilemmas: (1) it brought

⁵ See, for example, Hadi Soesastro, ed., *ASEAN in a Changed Regional and International Political Economy*, Jakarta: Centre for Strategic and International Studies, 1995, *passim*.

into being an Asian model of development that is not easily and directly compatible with the neoclassical norms embodied in the GATT and the WTO; (2) it has led to a distribution of economic power in which Japan and China (and the “overseas Chinese”) loom disproportionately large on the regional economic landscape; and (3) it left the United States as the critical market for Asia’s export-driven economic growth, leading to America’s massive and chronic regional trade deficit with the Asian nations of APEC and the subsequently bitter bilateral trade disputes that have cast a shadow over the APEC trade liberalization procedures.

Politically, the legacies of the Cold War are also paradoxical. It was a period in which the countries of Asia became independent and important participants in the modern international relations system. This transformation marked the dawn of the age of nationalism in the region, inevitably complicating the processes of regional integration that economic interdependence has set into motion. Most importantly, the hegemonic role played by the United States in the Cold War security regime in the Asia-Pacific region remains fundamentally intact, even though the threat justifying this framework has been utterly transformed. The concept of security itself needs revision to encompass economic and constabulary considerations, and hegemony is no longer appropriate or acceptable as a style of leadership now that the unique circumstances of the Cold War have come to an end. The long-term viability of APEC depends on at least the partial resolution of these paradoxes in the post-Cold War interregnum.

American Policy in the Asia-Pacific after the Cold War: The Geopolitical Backdrop for APEC

Japanese-American Relations

A focus on Japanese-American relations is the best place to initiate a discussion of specific developments in the Asia-Pacific political economy in the post-Cold War period. Despite escalating intellectual, political, and policy concerns about Japanese-American relations, the important questions are rarely asked and even more rarely answered.

The first imperative regarding Japan and the Asia-Pacific region is to see them in a global, regional, and historical context rather than a bilateral and ahistorical perspective. The second imperative is to delineate the unique economic and political legacies of the Cold War era. Japan has emerged from the Cold War without a security policy beyond dependence on the United States, even while it has become the world’s largest creditor and dispenser of foreign aid, the leader in many high technology industries, the dominant economic force in the world’s fastest growing region, and the major overseas partner of the United States. The United States, with the only global military power and the world’s largest GNP, is currently beset by internal and external economic and political problems that make leadership in the pattern of the Cold War impractical.

In the post-Cold War world, a viable adjustment of Japanese-American relations and American relations with the Asia-Pacific requires the effective linkage of economic and strategic policy considerations. The hegemonic security alliance now operative was crafted in the early years of the Cold War when Japan was devastated by war and poverty and was still under American military occupation. Today, the alliance is an anachronism. It is structured on assumptions about Japanese power and responsibilities appropriate to the years immediately after World War II and on the global role of the United States during the height of the Cold War in the 1950s and early 1960s. Perpetuation of the anachronistic asymmetry of this relationship has in recent years led to numerous astonishing and inherently nonviable results. For example, the world’s largest debtor nation effectively underwrites the security of the world’s largest creditor; and only in 1992, and then conditionally, did Japan agree to participate in

the United Nations' peacekeeping forces or any multilateral overseas military activities, despite the fact that Japan possesses the world's third-largest defense force.

These anomalies, together with persistent and protracted bilateral friction over trade and investment, have provoked a strongly negative and increasingly populist political reaction in the United States. This, in turn, has stimulated overt and highly visible anti-Americanism in Japan. Hostile congressional actions have grown in number and intensity; in U.S. public opinion polls, Japan has replaced Russia as the greatest perceived threat to the United States. The American media have taken an increasingly adversarial position regarding Japan, and Japan has been central to hyperbolic presidential campaign rhetoric. These developments have introduced a volatile new variable into bilateral relations and complicate any efforts by American policymakers to bring the U.S.-Japan relationship into greater congruence with the new international realities.

The success of Japan and the problems that Japan poses for a smoothly operating new world order are rooted in three fundamental legacies of the last four decades. First, although Japan's success has rightly been explained in terms of the brilliance of its internal political-economic organization (e.g., Chalmers Johnson's "developmental state") and in terms of the inadequacies of American society and policies, another basic cause is the peculiar structure of the international system under Pax Americana. Japan has become a global economic superpower because it has lived in an international security greenhouse free from all costs (political and psychological as well as economic) of participating in power politics. The greenhouse was built by the United States in the early years of the Cold War and has been sustained until now despite a radical transformation in international economic conditions and the end of the Cold War. This has perpetuated the separation of economic and security policies and has created institutional arrangements in both countries that impede the adoption of policies appropriate to new political-economic realities. One needs only to recall Japan's opera buffa performance during the Gulf War in 1991 to understand how much difficulty Japan is having as it tries to engage itself in important geopolitical issues as America's international greenhouse is dismantled.

A second legacy of the Cold War era is the failure of Tokyo to come to terms with the ill will created by decades of Japanese imperialism in the first half of this century and, above all, by the atrocities committed by its military throughout East Asia during World War II. The refusal of Japan to accept responsibility for these actions reached astonishing proportions on the 50th anniversary of the end of World War II. Furthermore, the systematic revision of Japanese textbooks in an official disinformation campaign of a scope rarely seen outside of authoritarian or totalitarian societies, designed to assure that younger generations of Japanese do not know as truth what everyone in Asia knows to be true, has severely undermined the capacity of Japan to be a leader in the region despite the dominant economic position it now holds. Ironically, the failure of Japan to play an integral if subordinate military role to contain communism in Asia (in the manner of West Germany in Europe) has left glowing the embers of doubt about irresponsible militarism that were lit by Japan's tragic excesses in World War II. As Kenneth Pyle has articulated, the Cold War has left Japan shackled by the burdens of its own history, unable to articulate a national purpose that transcends its own narrow interests.⁶

The third legacy of the Cold War that bears on the mounting tension between Japan and the United States, the possibility of creating effective regional organizations within the membership of APEC, and the imperative to link economics and security in any Asia-Pacific order, is the previously mentioned "paradox of interdependence." States like Japan that are capable of a coherent industrial and foreign economic policy calibrated to enhancing national power in the

⁶ See Kenneth B. Pyle, *The Japanese Question: Power and Purpose in a New Era*, Washington, DC: AEI Press, 1992.

global marketplace behind a fig leaf of liberal economic verbiage are enormously rewarded.⁷ Conversely, the open and fragmented process relating to American economic foreign policy works to the severe disadvantage of the United States. The discontinuities between international economic power and international economic responsibilities have been perpetuated in large part because the United States has failed to reassess adequately the policies and institutions of the Cold War.

Any attempt to reshape Japanese-American relations first confronts the question, "leadership by whom?" Because of the close links between Japanese society and political institutions, the current disarray in the Japanese party system, the reluctance of any nation at the apex of its power to alter its national course, and the seeming inability of Japan to articulate a national purpose with which others can identify, it is unlikely that Japan will take initiative to fashion a new world order. Any effort to bring about a new strategy that explicitly links security and economic policy must originate in Washington and foster an institutional *perestroika* in Japan as well as the United States, in much the way statesmen in previous periods of upheaval created new international systems-by leveraging the power from victory in the last great war.

Second, the Japanese concept of foreign aid-essentially commercial in purpose, informally (if not formally) tied to Japanese products, and self-consciously detached from political purposes such as democracy and human rights-stands in stark contrast to the politically conditional concept of American aid. Consequently, to agree to an international division of labor in which the United States maintains order and the Japanese give aid, as both the Bush and Clinton Administrations have done, would work only in a new world order devised by Lewis Carroll. Burden-sharing must include military responsibilities in a proportion roughly symmetrical to national economic power.

Third, both an expanded role for Japan in multilateral international economic organizations (e.g., the World Bank and the International Monetary Fund) and an expansion of the American role in regional organizations like the Asian Development Bank must be made to relate to their roles in similar organizations dealing with the maintenance of international order. It is within this context that the restructuring of APEC should be discussed. The international legacies of the Cold War international system for Japan and the United States provide an extreme example of how national economic and security policies are conditioned by the external environment in which they operate, and points the way to a realistic and sweeping restructuring of bilateral relations.

United States Policy in Asia outside Japan

Rather than reviewing in very broad strokes the recent major American policies toward Asia outside Japan, for the purpose of this paper it is more useful to assess selected policies in terms of the legacies of the Cold War and how they bear on an American political-economic strategy toward the region. By focusing on the fundamental approach taken by the United States with regard to four issues-relations with China, the closing of bases in the Philippines, the territorial dispute between Russia and Japan, and relations with Korea-it is possible to examine distinct and critical dimensions of American policy with an eye to defining a new road for Asia-Pacific leadership.

What is interesting and distinctive about U.S. policy toward China is the degree to which it has been caught up in and shaped by American domestic politics since the beginning of the

⁷ Japan has been in fuller compliance with the formal requirements of the GATT than the United States since roughly 1973, but even the Japanese government sponsored six "market opening" campaigns in the 1980s.

Cold War era. American policy toward China has long had a peculiarly moralistic and ideological overlay. At the outset, outrage from the conservative wing of the Republican Party over the triumph of the communists in China set into motion domestic political forces that blocked normalized ties for more than two decades. Recently it was liberals in the Democratic Party who were in the vanguard of those in Congress who were morally outraged over conciliatory gestures toward China in the wake of the massacre in Tiananmen Square in 1989. Currently, such moralistic considerations have touched economic matters (the debate over most-favored nation status), human rights, and security (i.e., the export of technology and delivery systems for weapons of mass destruction), and present a formidable obstacle to any administration seeking to address in flexible fashion the changing role of China in Asia. Even in an age of international upheaval, American policy regarding the largest country and strongest military power in Asia remains peculiarly hostage to American domestic politics and the American diplomatic tradition. The moralistic component of American foreign policy must be redefined if the United States is to lead effectively in the creation of a new world order in Asia.

Because they helped project American military power into the Southeast Asian region and had a substantial impact (both in the rent paid and the salaries disbursed) on the national economy, the major American bases in the Philippines (Clark Air Base and Subic Bay Naval Station) served to cement the special political-economic relationship the United States had with its former colony. However, in the 1980s Philippine nationalism, with a vocal anti-American component, combined with an altered strategic situation in the area to make at least a draw-down or redefinition of the American military presence inevitable. The United States had to choose between justifying the bases in traditional (i.e., Cold War) terms or defining a new political-security rationale for their continued presence.

Lacking any new strategic concept, the United States responded to the request to leave (laid down by a one-vote plurality in the Philippine Senate Foreign Relations Committee) by negotiating the future in terms of the parameters of the past—rather than, for example, proposing the “internationalization” of the Subic base as part of a broader move for a multilateral regional security force appropriate to a post-Cold War world. A volcanic eruption made Clark inoperable on the eve of the U.S. departure from Subic. As a consequence, the major military change in Asia since the end of the Cold War was made not by the winning hegemon but by a former client state—and it was sealed by an act of nature.

The Korean peninsula, still divided by the Cold War, still a conventional military flash point, and now the potential locus of a nuclear pariah state, requires a comprehensive and new strategic policy approach from the United States. Again, no such approach has emerged. Confronted with a security environment in permanent crisis, both Seoul and Pyongyang have aggressively pursued their own interests. South Korea, responding to the events attendant with the end of the Cold War, cultivated extensive economic ties and established formal diplomatic relations with China and Russia. North Korea, frustrated by these events and its own aborted attempt to expand dramatically economic relations with Japan and other nonsocialist nations, accelerated its program to develop nuclear weapons, thereby creating a new crisis in the Northeast Asian strategic balance.

Because the United States continued to view Korean issues through the prism of the Cold War—unification was considered a “Korean question” to be resolved behind the shield of the American military presence—no real initiatives had been taken to seize the moment at the end of the Cold War. Consequently the deployment of American tactical nuclear weapons in the South (a potential bargaining chip for a redefined military balance on the peninsula) was given up in the effort to deter North Korea from acquiring nuclear technology that could be used for military purposes. Both the timing and size of an announced reduction of American conven-

tional forces in South Korea were primarily dictated by budgetary, not strategic, considerations, and then were halted because Kim Il Sung's rogue regime was on the brink of developing its own nuclear weapons program. The recent maneuvers regarding a nuclear "deal" with the North were in the hegemonic style of the Cold War. Thus the agenda for American policy toward Korea has been set not by strategic initiatives from Washington, but by budgetary criteria and internationally generated crises.

The territorial dispute between Japan and Russia over four small islands north of Hokkaido is the one unresolved territorial legacy of World War II and has served as a major obstacle to Japan's participation in one of the greatest challenges for the post-Cold War world—to prevent the utter collapse of the former Soviet Union. Because the United States was responsible for all of the post-World War II agreements that defined the status of these islands (e.g., the Potsdam Declaration, the San Francisco Peace Treaty),⁸ remained responsible for security in the western Pacific, and held a special relationship with both Japan and Russia, Washington was in a unique position to pursue resolution of this dispute between Tokyo and Moscow. However, instead of linking this issue to the broader question of a post-Cold War order, the United States simply supported the legally (though not historically) dubious claim of Japan to the two largest islands and deliberately chose not to become actively involved.

Discussions between Russia and Japan continue to founder, largely because President Boris Yeltsin is severely constrained by domestic political pressures. However, the passivity of the United States on this matter seemed to pave the way at one point for one of the most astonishing diplomatic events of modern times. Both Yeltsin and then Japanese Prime Minister Kiichi Miyazawa agreed to listen to the mediation proposals of German Foreign Minister Hans-Dietrich Genscher. Had these efforts succeeded (they did not), Germany, the Axis ally of Japan in World War II, would have negotiated an end to that war in the Pacific by mediating a dispute involving Japan and the defeated hegemon in the Cold War. The United States, the winner in both wars, would thus allow one element of the conditions of peace to be established by those defeated. Only in the vacuum of statesmanship currently seen in American policy toward Asia could such a scenario have been so close to realization.

In the Asia-Pacific region during the post-Cold War interregnum, the United States has not replaced the institutions and policies of the Cold War era, despite an obvious need for change. Rather than operating within a fresh, coherent, long-term strategy (either global or regional), United States policy toward Asia has moved from one specific issue to another on an agenda set not by policy initiatives emanating from Washington, but as dictated by regional crises (e.g., North Korea, the Philippine bases), America's domestic political, economic, and budgetary considerations, or initiatives by other Asia-Pacific countries to create new arrangements for international cooperation. The most important of the aforementioned initiatives is, of course, APEC.

The Symbiosis of Economics and Politics: APEC, the United States, and the New Asia-Pacific Political Economy

To assess the potential for American leadership in creating an institutional framework in the Asia-Pacific region in the current era, and the role of APEC in such a framework, it is first essential to establish the broad geopolitical and economic realities in the region. The critical questions are: do the current structures and dynamics of the regional economy prevent the United States from exercising regional leadership? Does the current military-strategic pattern in Asia necessitate that the United States simply uphold the security framework inherited from

⁸ On this point see Donald C. Hellmann, *Japanese Domestic Politics and Foreign Policy: The Peace Agreement with the Soviet Union*, Berkeley, CA: University of California Press, 1969, pp. 29-40 and *passim*.

the Cold War? And finally, can a multilateral organization be set up in the Asia-Pacific region that deals comprehensively with both political and economic issues without destroying the existing framework that, however fragile, has made the region peaceful and prosperous?

It is often asserted that structural changes in the international system constrain the potential for American leadership in the Asia-Pacific region. Some analysts stress that the rise of intra-Asian trade and direct investment, along with Japanese technological leadership, has created an East Asian bloc with Japan at the center. In this scenario, the United States is marginalized, cut off from the economic vibrancy of Asia, while on the western edge of the Pacific there develops an "independent and multipolar" economic bloc with a momentum of its own.⁹ In an extension of this logic, many of those who hope for a continuation of American leadership in Asia tend to see involvement in APEC as a kind of rear-guard maneuver to keep the United States in Asia¹⁰ or to prevent Asia from "running away from the United States."¹¹

Others, notably Noordin Sopiee, reject the leadership ascribed to the United States and other Western nations by condemning all efforts to build international institutions based on universal criteria as "Cartesian," culturally bound, and inappropriate to Asia.¹² Such commentary, which effectively suggests that it is futile to formalize criteria and regularize processes to manage international affairs, serves only to squelch further debate, not to stimulate constructive discussion. The essence of the modern international system is rooted in the application of science to nature and reason to human affairs: in this spirit, one can address the question of the possibility for American leadership in the Asia-Pacific through a closer examination of the political and economic structure of the region.

Despite the recent intensification of intra-Asian trade and the "strategic direct investment" of Japan in Asia,¹³ there is still ample leverage for American leaders in purely economic terms. Perhaps the clearest way to underscore the major economic role the United States continues to play in Asia is to compare trade flows from the core of APEC in Asia (China, Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand) to the United States and Japan from 1980 to 1993 (the last year for complete statistics).

As stated before, it is commonly argued that the intra-Asian pattern of direct foreign investment has led to a de facto East Asian economic bloc which excludes the United States and has Japan as its hub.¹⁴ However, such an analysis focuses solely on the supply side of the economic system (investment) and not on the demand side of the interdependence equation (trade). As seen in Table 1, the ratio of Asia's exports going to the United States was 21.4 percent in 1980. By 1993 this had remained roughly constant at 21.5 percent, while Asia's exports to Japan had fallen from 22.2 percent of its total exports in 1980 to only 12.5 percent in 1993. The raw figures from which these percentages were calculated are presented in Table 2.

⁹ Peter A. Petri, "Trading with Dynamos: East Asian Interdependence and American Interests," *Current History*, December 1994, pp. 407-12.

¹⁰ C. Fred Bersten, "APEC and World Trade," *Foreign Affairs*, May/June 1994, p. 26.

¹¹ Jonathan Clarke, "APEC as a Semi-solution," *Orbis*, Winter 1995, pp. 81-95.

¹² Noordin Sopiee, "Prospects for Free Trade and Cooperation: APEC's Osaka Summit," Speech to a Nihon Keizai Conference, May 19, 1995.

¹³ This is forcefully elaborated in a forthcoming book by Walter Hatch and Kozo Yamamura, *Asia in Japan's Embrace: Building a Regional Production Alliance*, Cambridge University Press, 1996 (forthcoming).

¹⁴ See, for example, Michael Borrus and John Zysman, "Industrial Competitiveness and American National Security," in Wayne Sandholtz et al., *The Highest Stakes: The Economic Foundations of the Next Security System*, Oxford University Press, 1992, pp. 1-52.

Year	Japan	U.S.
1980	22.2	21.4
1985	17.8	30.6
1990	14.8	23.1
1991	14.1	21.1
1992	12.8	21.5
1993	12.5	21.5

Year	Total Exports	To Japan	To the U.S.
1980	141.6	31.5	30.4
1985	187.1	33.3	57.3
1990	423.1	62.5	97.9
1991	483.9	68.4	102.3
1992	549.9	70.2	118.2
1993	612.8	76.9	131.8

As Asia's exports have grown astronomically in the last 15 years, American imports from Asia have also grown astronomically. Japanese imports from Asia, meanwhile, are only increasing incrementally. The viscosity of the Japanese market means that Japan simply cannot absorb a very large percentage of what Asia produces; Japan may be at the hub of an East Asian investment bloc, but it is not even close to having a porous enough market to become the hub of an East Asian trading bloc. If the United States were suddenly to alter its pattern of consumption and follow a pattern of savings and investment that resembled Japan's, the interdependence equation would become unbalanced. The trade deficit of the United States makes possible the trade balance (or surplus) of all Asian APEC members. This fact, and the lingering reality that the dollar remains the currency of account in the Asia-Pacific region and that America

¹⁵ Sources for Tables 1 and 2: *IMF Direction of Trade Statistics*, various years; *Republic of China Statistical Yearbook*, 1993, pp. 238-39; and *Taiwan Statistical Data Book*, 1994, p. 196. "Asia" includes China, Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand.

is the world leader in technological innovation, necessitates that the United States has, and will continue to have, a leading role to play in the massive trans-Pacific economy.

Finally, Table 3 provides a picture of Asia's trade balance with the United States and Japan, respectively. The table illustrates two interesting developments: first, that the magnitude of growth between 1980 and 1993 of Asia's deficit with Japan and surplus with the United States have both become so pronounced; and secondly, that Asia's current surplus with the United States so closely approximates its current deficit with Japan.

Year	United States	Japan
1980	+ 5.4	-2.3
1985	+28.9	-9.3
1990	+41.5	-22.7
1991	+38.5	-32.5
1992	+48.6	-42.1
1993	+54.4	-54.2

To be sure, there are a number of ongoing changes in the structure of the Asia-Pacific economy that will increasingly limit the capacity of the United States to lead. Despite a protracted recession caused mainly by excesses of the "bubble economy" boom of the late 1980s (especially in the financial sector), Japan has been a decisive force in creating the de facto economic region on which APEC is built. Three factors have driven this push into Asia: (1) calculated decisions by the government, notably the Ministry of International Trade and Industry and the Ministry of Finance, to give priority to economic engagement in Asia; (2) market-driven decisions by Japanese business to invest in nearby countries with cheap, efficient labor pools and records of economic growth; and (3) the concentration of aid in the Asian region during a period when Japan became the largest provider of foreign aid in the world. The effective result has been a kind of international industrial policy in which the Japanese economy is tied to and is a leader of the Asian APEC region in ways that transcend the picture provided by aggregate trade and investment statistics. It is inconceivable that the United States can approach the depth and scope of Japanese economic involvement in the Asian region outside of China in the current international interregnum.

In addition to the Japanese role, a defining feature of the APEC economy is the overseas Chinese community. Not only are three of the four NIEs Chinese (Taiwan, Hong Kong, and Singapore), but ethnic Chinese dominate virtually all ASEAN economies and provide more than three-quarters of the investment that is fueling the boom in China. The magnitude of the Chinese presence (especially in the financial markets), the web of personal and culturally sanc-

¹⁵ Sources for Table 3: *IMF Direction of Trade Statistics*, various years; *Republic of China Statistical Yearbook*, 1993, pp. 238-41; "Asia" includes the same nine economies listed for Tables 1 and 2.

tioned procedures that underlie this “Chinese way of doing business,” and the sheer momentum that has built up in recent years make the overseas Chinese community the second, equally important variable defining the Asian APEC economy. Clearly the economic role of the overseas Chinese is a factor that will fundamentally shape American efforts at leadership and will be critical to the structure of any institution designed to influence the dynamics of the Asian APEC economies.

Finally, the nature and form of the broader economic interdependence that accompanied the extraordinary growth during the 1970s and 1980s is the crucible that led to the formation of the regionwide arrangement called APEC, and remains at the center of the debate over the feasibility and form of American leadership. Even before the APEC process had gained momentum, an American secretary of state suggested in a speech that “a new mechanism for multilateral cooperation,” similar to that seen in Europe, was needed to deal with the effects of enhanced integration on the Pacific Rim.¹⁷ This tentative proposal (“The United States will not offer a definitive blueprint”¹⁸), which has been echoed in statements by American leaders in subsequent years but never formally pursued, may be seen as the core of the American effort at economic leadership in the Pacific. What is striking is not the boldness of the proposal or the legalistic form it has taken, but how modest, indirect, and informal it has been.

Leadership in the Asia-Pacific region must encompass security as well as economic concerns. Since the millennium is not nigh; since nationalism is still a conspicuous feature of the Asia-Pacific landscape; because the two regional superpowers are not orthodox members of the international system; and because the Asia-Pacific region cannot become the center of the global political economy while decoupled from global security, some sort of security regime must be kept in place and effectively juxtaposed with the economic progress that is fostered by APEC. Two features of the contemporary security situation in the western Pacific and APEC are noteworthy: first, the almost consensual agreement among official¹⁹ and unofficial voices that security issues should be off the APEC agenda; and secondly, the willingness of the United States to keep in place the same force structure and institutions inherited from the Cold War despite massive shifts in economic power and security threats. In fact the Pentagon has recently indicated that the hegemonic role of the United States would be extended for the next 20 years.²⁰ Because the Clinton Administration has kept open the possibility of fresh multilateral security arrangements (to supplement, not supplant, the existing alliances) and has broadly linked Asia’s economic success to American security commitments, in principle the door is ajar for a constructive dialogue within APEC nations concerning a new Pacific partnership that advances regional security as well as economic growth. What is surprising is the failure of the United States to lead imaginatively by proposing a security regime that goes beyond merely an extension of the past into the future.²¹

In the present era, what is distinctive about security, both globally and in East Asia, is the movement from hegemony and containment to what may be called complex strategic interdependence. The lingering strategic nuclear threat is the preserve of the military superpowers,

¹⁷ Secretary of State James Baker, “A New Partnership: Framework for the Future,” an address to The Asia Society, New York, June 26, 1989, in *Department of State Bulletin*, vol. 89, no. 2149, (August 1989), p. 65.

¹⁸ *Ibid.*

¹⁹ Australia and the United States are the only nations that have proposed that security be added to the agenda of the APEC forum. ASEAN states have openly opposed broadening APEC beyond economics, but have used the ASEAN post-ministerial meetings and the recently established ASEAN Regional Forum as forums to discuss security. Japan, of course, officially prefers the free ride provided by the present setup, and China follows a straightforward national power approach to security.

²⁰ U.S. Department of Defense, *United States Security Strategy for the East Asia-Pacific Region*, *op. cit.*, p. 2.

²¹ Virtually all Asians accept the strategic utility of the status quo: Japan, because it puts off the high domestic and international risks of developing an independent military role and keeps the United States as a buffer to potential security threats such as North Korea and China; China, because, *inter alia*, the status quo keeps the cap in the bottle of Japanese nationalism; South Korea, because of the threat from the North; and ASEAN, because it is the best and cheapest way to balance Japan and China.

and the new challenge of preventing the dissemination of weapons of mass destruction to pariah states and renegade organizations is another aspect of the international system that will be dominated by the largest states. The recent ongoing nuclear crisis with North Korea underscores the need for management of this issue in the Asia-Pacific region.

A second dimension relates to territorial defense, for as long as there are nations and nationalism, every country will have a military force to maintain internal and external security. In the post-Cold War interregnum, it is highly probable that the role of the United States in East Asia will gradually shift from hegemony to partnership with the reshaping or abandonment of existing alliances within a new multilateral framework. Both hegemony and unilateralism will prove increasingly dysfunctional within the multipolar regional framework of the APEC region.

A third strategic dimension of the post-Cold War world, constabulary security, has particular relevance for the Asia-Pacific region and APEC because it links economic interests to security and underlines why a purely regional security focus is not possible for the likely center of the global political economy. What is constabulary security, and what sort of institutional arrangement and force structure are involved? Most simply, it denotes the need for a regional and/or global military force to perform international constabulary action that goes beyond ordinary police activities. One feature of military conflicts in the 1990s has been their location on the periphery of the international system. Overwhelmingly they have been located in small countries, usually multiethnic former colonies (of both the Western and Soviet empires) that often involve groups within the countries or nongovernmental organizations, not conflicts between states. Often they involve pariah and rogue states (e.g., Iraq, North Korea). Usually such conflicts do not pose immediate or strategic threats to the major actors.

A second feature of war in the post-Cold War period is the growing importance of economic interests. The Gulf War was essentially about protecting oil supplies; similarly, the disputed Spratly Islands in the South China Sea have taken on international significance because of the potential for oil resources. Economic interests now vie with territorial, ideological, and cultural conflicts as the reason for the use of force. This symbiosis of economics and conflict not only means that security is increasingly global (especially for the economically successful nations that make up APEC) but it is multilateral because of shared interests rooted in economic interdependence.

Because current security arrangements (alliances, the United Nations) were devised in other eras for purposes different from the constabulary issues on the contemporary scene, the efforts to cope with contemporary security needs take on extreme, often bizarre forms. Japan, which imports 65 percent of its fuel from the Persian Gulf, was the only major nation not to participate in the Gulf War. The United States led the Gulf War, but because of budget problems had to seek out burden-sharing "donations" to pay for it. America currently deploys two carrier task forces to defend the security of the sea-lanes between East Asia and the Middle East, even though less than five percent of all ships passing through those sea lanes are directly related to American interests. A new, constabulary definition of security is needed, and this is a matter in which APEC nations must play a central role, if only because of their economic place in the international system. It is a task that is vital to the creation of a viable international framework for the Asia-Pacific and is once again a matter on which the United States is best situated to lead.

Can APEC be changed to address political as well as economic issues within a framework that is basic to all enduring and effective international organizations: that is, through a formal process of decision-making as well as debate? Some sort of change seems inevitable because the currently narrow economic and unstructured format of APEC is unlikely to serve as the key venue to facilitate the dawn of the Pacific century.

Despite its truly substantial achievements, structurally APEC may be seen as an updated, economic version of the Kellogg-Briand Pact of 1928. Like the Kellogg-Briand Pact, which committed all signatories to renounce war, APEC is focused on a single purpose—to enhance the economic well-being of its members—without consideration of the political-security context. Unlike the League of Nations, the operative global institution designed to prevent war in the 1920s, the Kellogg-Briand Pact provided no objective criteria against which to measure conduct or procedures through which decisions and sanctions could be imposed. Rather, Kellogg-Briand called only for “negotiation” to achieve its purpose. Similarly, APEC, unlike the GATT and the WTO, does not have in place criteria, procedures, and sanctions to address economic conflicts of interest and results. Negotiation and consensus serve as the *deus ex machina*.

In the end, the Kellogg-Briand Pact never became more than a diplomatic symbol and moral gesture. Indeed, as an international institution, it would be in the front row of Barbara Tuchman’s historical “march of folly.” APEC must change if it is to avoid joining the same parade. Against the backdrop of the modern history of international relations, the minimal requirement for the long-term viability of APEC involves the establishment of more formal procedures, if only to relate more effectively to the European Union and NAFTA, the institutions that in part led to the establishment of APEC.

The United States’ contributions to APEC have been sporadic in timing and substance, and uneven in results. Without question, the most important American contribution to APEC was the decision by President Clinton, as leader of the government playing host to the group’s 1993 meeting in Seattle, to invite the leaders of all the APEC economies to attend. It is a practice that has been and is likely to continue to be a feature of the annual APEC ministerial meetings. This has not only raised the profile of APEC, but symbolically linked politics and economics and provided the occasion for this link to become substantive.

To be sure, in APEC’s present form even this action has distinct limitations. International summits achieved prominence during World War II and at the height of the Cold War, when issues were clear and the reins of power were held firmly in the hands of the heads of state. When, in the late 1970s, summits came to focus on the coordination of macroeconomic policy, which involved complex issues enmeshed in the domestic politics and economics of each nation, they quickly became little more than media events. For the future annual meetings of the APEC leaders to take on true significance, it is essential that each be structured around an agenda within a broader strategic framework. It was to this end that the Eminent Persons Group (EPG) was set up, and it is the second most important contribution of the United States to APEC.

^aIn preparation for the Seattle meeting, this group of distinguished economists from APEC nations, headed by American Fred Bergsten, was established to provide a medium-term vision for APEC. The Eminent Persons Group (a truly extraordinary name in this age of egalitarianism, produced two vision statements. The initial agreement (the 1993 APEC Economic Leaders’ Vision Statement) called for a commitment to free trade in the region, and initially suggested a more formal regional relationship that would produce a Pacific community—a suggestion that provoked charges of American hegemonism and was ultimately qualified. The second vision statement was prepared for the Bogor, Indonesia, meeting in November 1994 and laid out a staggered timetable for complete trade liberalization by 2020. This in turn set the agenda for the activities of the senior officials meetings in 1994–95 to “blueprint” the liberalization for specific sectors of the economy.

The EPG did provide structure and a controversial if truncated vision that had a positive impact on the APEC process. If it is disestablished, it should be replaced by some sort of APEC think tank that could pose hard and controversial questions regarding not only the policies of APEC but the structure of the institution itself. As long as the primary purpose of APEC is to

serve as a forum for new ideas and consensus-building with the aim of creating an Asian-Pacific community, its horizons must encompass the challenges of bringing peace as well as prosperity to the most dynamic region in the world. Indeed, as a multilateral forum, APEC is the ideal launching pad for the creation of a more formal organization appropriate to managing the revolutionary transformation of the Asia-Pacific.

The United States is uniquely positioned to lead in the Asia-Pacific region at the dawn of the Pacific century. Leadership in the future, while built on the legacies of the past, must be multilateral, multipurpose, and flexible in a diverse and rapidly changing international environment. Ironically, a failure by the United States to meet this challenge would have catastrophic consequences for APEC. The road to peace and prosperity in the Pacific leads through Washington.

JAPAN'S PERSPECTIVE ON APEC: COMMUNITY OR ASSOCIATION?

Akio Watanabe and Tsutomu Kikuchi

The Asia-Pacific region in the 21st century will surely be characterized by uncertainty filled with both promise and risk.

Promising in that the new century will see Asia driven by vigorous nationalism, by encouraging moves toward new forms of democracy, by endeavors to achieve economic prosperity, by a search for new social order, and by attempts to create a cooperative regional security framework.

The risks will lie in the potential for a collapse of fragile economies, internal conflict among political and religious factions, a reversion to totalitarian regimes, and competition among major powers to gain regional hegemony.

Reflecting this uncertainty and fluidity, the debate about the future of the Asia-Pacific region is characterized roughly by two schools of thought. On the one hand, a "back to the future" scenario is presented by the so-called realists, who argue that the end of the Cold War has released indigenous conflicts which had been contained during the Cold War era. They also argue that the region could easily destabilize and that a classical balance-of-power politics will emerge in the international relations of the region.

On the other hand, the liberal view argues that the deepened and complex interdependence among the countries of the region has curtailed military rivalry between industrialized countries. In fact, the Asia-Pacific nations are enmeshed in a web of interdependent trading and financial networks. It is argued that mutual dependencies in trade, finance, and technology both raise the cost of conflict and lower the incentives for war. Incentives for conflict are lowered because in a relatively open liberal international economy access to raw materials, finance, and markets is obtained at less cost and on a greater scale than would be possible by military control of territory or by establishing spheres of influence. Combined with the end of the Cold War, this interdependence can moderate serious conflicts in the region.¹

Many scholars and officials seem to believe that the Asia-Pacific region of today cannot easily be viewed from the classical realist perspective of power politics. There is a pervasive undertone throughout many of the proposals concerning a multilateral framework for the Asia-

¹ Barry Buzan and Gerald Segal, "Rethinking East Asian Security," *Survival*, vol. 36, no. 2, pp. 3-21.

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Pacific that the region, in part because of its predominant focus on economic prosperity, really has a chance of moving away from an adversarial approach to security toward a common/cooperative security framework.

In fact, calls for a multilateral approach to achieving peace and prosperity in the Asia-Pacific region have been on the rise. The end of the Cold War has encouraged countries in the region to pay more serious attention to the possible multilateral security architecture of the region.

In the field of regional economic arrangements, we have seen the establishment of the Asia-Pacific Economic Cooperation (APEC) forum. APEC is now becoming the key mechanism for promoting regional dialogue and economic interdependence, with an emphasis on the need for nondiscriminatory trade and liberalization.

In the political and security fields, the ASEAN Regional Forum (ARF) was launched in July 1994 to provide a forum for security dialogue among ministers of 18 countries of the region. ARF may play a key role in consolidating "codes of conduct" among the region's countries. Such an initiative to bring the key players together to confer with one another is indeed vital in this contemporary post-Cold War era; indeed, it is the first time that the region has initiated a truly regionwide multilateral security dialogue and cooperation.

In any event, Asian economic dynamism and the emergence of regionalism, coupled with the end of the Cold War, have posed serious challenges to the region's countries in political, economic, and security terms.

In this paper we examine the regionalism emerging today both theoretically and empirically, with an eye to economic as well as political-strategic relations. Our basic assumption is that the form and substance of regionalism changed radically during the 1980s, particularly after the end of the Cold War. Regionalism has now become a major factor shaping the structure of the world economy and one of the most important factors in international politics.

We argue that the Asia-Pacific region needs to pursue both community-building and institution-building in such a way as to keep either approach from negating the effects of the other. It is also argued that the Asia-Pacific region needs to invent a new concept of organizing the region, different from those of traditional economic integration. We also note that, because of its diverse makeup and in order to prevent polarization, APEC needs to invent some policy device in the decision-making processes by which smaller economies can maintain political autonomy vis-à-vis their big brothers. In addition, we point out many "legacies" originating from the past history of the region which, without careful attention, will seriously obstruct the stable developments of regional cooperation.

The Emergence of Economic Regionalism

The integration of national economies into a global economy is occurring at an astonishing rate. Today a world market of goods and services is appearing. Domestic financial markets have been integrated into a global system. The multinational corporation is becoming the principal mechanism for the allocation of investment capital and determination of the location of production sites throughout the world.

At the same time, the end of the Cold War and the collapse of the Soviet Union have had grave impacts on the policy priorities of states. As revealed in recent U.S. policy developments, policy priorities have been shifting from national security issues during the Cold War era to

economic interests. Competition among nations is changing from a “power game” to a “wealth game.”²

The rapid expansion and deepening of economic interdependence have made international relations more complicated. Today “diplomacy” is not monopolized by states. In addition to the classical state-to-state relationship, relationships between states and firms and strategic alliances between multinational corporations strongly impact the shape of contemporary international relations. Moreover, increased economic interdependence has led to more tense economic conflicts among states. As a result the role of the state in dealing with economic conflicts is increasing.

Regionalism has begun to take shape in various parts of the world, leading to such phenomena as the European Union (EU) and the North American Free Trade Agreement (NAFTA). Thus, while transnational integration is taking place globally, economic regionalism has also been rapidly expanding. In the Asia-Pacific region, the Asia-Pacific Economic Cooperation forum was established in 1989, and became a principal vehicle for economic cooperation and dialogue in the region.

Unlike the regionalism of the 1950s and 1960s, today the world’s major economic powers such as the United States and Japan are active participants. The United States, with the largest economy in the world, always placed the highest priority on global economic management through such efforts as the General Agreement on Tariffs and Trade (GATT) and the International Monetary Fund (IMF) in the postwar period, and had been a reluctant participant in economic regionalism. Japan had also never joined a regional economic association. Today, regionalism has become a normal phenomenon, not an exception, in contemporary international relations.³

The emergence of regionalism reflects the complexity of international relations in an age of deepening interdependence. Regional economic organizations and agreements, such as free trade agreements, expand economic power of the member economies comprising the region and enhance international competitiveness of regional industries through efficient combinations of economic resources.

Structural and Political Factors Promoting the New Wave of Regionalism

In an era of globalism, why is regionalism emerging in various parts of the world? We would like to touch upon the structural changes of the global and regional political-economic systems occurring in the 1980s that have prompted the new wave of economic regionalism. Some political factors behind the emergence of regionalism will also be pointed out.

(1) *Decline of U.S. Hegemony.* When Western Europe began to experiment with elements of regional economic integration in the 1950s and 1960s, the United States had sufficient hegemonic power to manage international economic and financial systems. In the 1980s and the 1990s, however, the United States lost its hegemonic position. Even though the United States is still the largest single economy in the world, the international economic system has become multi-polar in nature.

² Yasuhiro Nakasone et al., *Kyodo-Kenkyu: Reisen-igo (Joint Research: After the Cold War)*, Tokyo: Bungei-shunju, 1992.

³ Yoshinobu Yamamoto, “Regionalization in Contemporary International Relations,” paper presented to a conference entitled “Regionalization in the World Economy,” June 17-18, 1993, Tokyo, cohosted by the Japan Institute of International Affairs, the Institute of the Americas, and the University of California at San Diego. In writing this paper, we are much indebted to Professor Yamamoto’s pioneering article.

(2) *End of the Cold War.* The end of the Cold War, coupled with the collapse of the Soviet Union, has had an important impact on the meaning and function of regionalism. Developing countries now have to compete with former communist countries for obtaining development assistance and foreign direct investment.

(3) *Changes in North-South Relations.* Until the 1970s, North-South relations were confrontational. The basic strategy of developing countries involved protective import-substitution policies, which were inward-looking in nature. In addition, these developing countries' political systems were mostly authoritarian. Since the late 1970s, however, developing countries have begun to move toward economic liberalization and political democratization.⁴ Abandoning protective import-substitution strategies, they have begun to employ "strategies of interdependence," putting more emphasis on maintaining closer economic relationships with developed countries. They also aggressively seek market access to developed countries.

The developed countries, on the other hand, have begun to look for new markets for their foreign direct investments to enhance the international competitiveness of their industries. The introduction of both economic and political liberalization measures in developing countries has encouraged massive flows of capital from the developed countries to developing countries in the form of foreign direct investment. Thus the relationships between developed and developing countries have become less confrontational and more cooperative. This structural change puts a new dimension on the development of regionalism comprising both developing and developed countries.

(4) *Liberalization of the Global Economy.* The global economy became much more liberalized in the 1980s due to international institutional changes and technological advances in communications and transportation. For example, until the collapse of the fixed exchange rate system in the early 1970s, transborder capital flow was fairly limited. In the 1980s, transborder capital flow was liberalized, at least among the industrialized countries. Today developing countries are also radically liberalizing their regulations on transborder capital flow.

(5) *Political Incentives to Promote Regionalism.* If the world economy were moving toward a single market, the best strategy to liberalize trade and capital flow would be indeed to achieve it globally, e.g., through the GATT system. However, as so many nations with different interests and agendas are involved in the global negotiations, as was seen in the Uruguay Round, it takes a long time and much energy to reach an agreement. Even if some agreements are reached under the GATT, some nations may "free ride," i.e., obtain the benefits of liberalization without opening their own economies. Thus transaction costs and the problem of free riding prevent some nations from relying only upon global solutions and lead them to opt for regionalism as an effective means of achieving their objectives. Compared with global negotiations, regional efforts can provide opportunities for nations to reach some binding agreement without as many transaction costs and without the problem of free-riding nations.

Characteristics of the New Regionalism

The structural changes mentioned above have promoted the emergence of a new regionalism, which will have a strong impact on the future shape of the international political economy. Let us discuss the characteristics of the emerging regionalism briefly.

(1) *Outward Looking.* One of the most important objectives of economic regionalism in the 1950s and 1960s was to increase intraregional economic activity. Therefore the ratio of the

⁴ Samuel P. Huntington, *The Third Wave*, Tulsa, OK: University of Oklahoma Press, 1991.

intraregional trade to total trade was one of the most important indicators of regionalism. Although one of the objectives of the regionalism emerging today is also to enhance intraregional economic activities such as trade and investment, it is not the most significant purpose of the new economic regionalism.⁵

While the ratio of intraregional trade to total global trade for the European Union is well beyond 60 percent, the ratios for North America and Asia are below 40 percent. In the cases of Latin America and Southeast Asia, the ratios of intraregional to total trade are fairly low. These ratios are not expected to increase radically in the future despite the rise of regional economic arrangements.

Thus, with the exception of the European Union, the emerging regionalism is outward looking. For example, one of the reasons why ASEAN members created the ASEAN Free Trade Agreement (AFTA) was to improve their position in the intense international competition for foreign investment and for negotiating with extra-regional (i.e., developed) countries. The outward orientation of this regionalism is generally consistent with the globalization of the world economy.

(2) *Diversity of Participating Countries.* One of the distinguishing characteristics of today's regionalism is that it includes both developed and developing countries, both large and small economies. NAFTA includes the United States, Canada, and Mexico. If, as expected, NAFTA expands southward to include other Latin American countries, the diversity of the participating countries will become even more striking. APEC also includes large, developed economies such as the United States and Japan as well as newly industrializing economies (NIEs) and other developing countries. There exist vast differences in terms of economic development, economic size, political systems, and tradition. Even the European Community has become more heterogeneous as new members have joined. If the ex-socialist countries of Eastern Europe join the European Union in the future, it will become even more heterogeneous.

The above analysis shows that today's regionalism "internalizes" the North-South issue within regions. This in turn means that advocates of the new regionalism have to face the question of how to establish policy instruments whereby smaller nations can maintain political autonomy vis-à-vis their big brothers in the same region.⁶

(3) *Increasing Number of Participating Economies.* In the 1950s and 1960s the number of economies participating in regionalism was rather small. Although some regional economic associations such as AFTA are relatively small, in general today's regional associations include many more participating economies. The European Union, for example, has more than one dozen members, and it is expected to grow in the future as the EU expands eastward and southward. APEC now has 18 member economies and is expected to expand in the future.

(4) *Participation of the Major Economic Powers.* Until recently the United States, the single largest economy in the world, was not a member of any regional economic organization. Washington was firmly committed to globalism. Today, however, the United States is a key player in institutionalized regional economic integration efforts such as APEC and NAFTA. Japan is also a member of APEC. In this regard, economic regionalism is not the exception but the norm in contemporary international relations and, because of the involvement of the major economic powers, has major consequences for the international political economy as a whole.

⁵ Yamamoto, *op. cit.*

⁶ *Ibid.*

(5) *Emergence of Natural Economic Territories.* We are witnessing the emergence of what can be called natural economic territories (NETs). NETs involve quite new and different patterns of economic integration.⁷ First, although NETs are formed among geographically adjacent nations, they do not aim at the integration of entire national economies. Second, they are generally formed by nations with different levels of economic development for the purpose of promoting efficient combinations of advantageous resources such as capital and labor to develop the region. Third, NETs are not internally oriented: they are not formed to create goods for sale within the region but instead for the global markets. Finally, NETs are not institution-oriented. There is no “membership” or any formal regional structure.

NETs seem to be a good device for enhancing economic efficiency and promoting political relations among the participating nations. They may, however, bring about sensitive political problems as well. For example, economic dynamism is cutting across national borders and penetrating into China. The increasing interdependence of China’s coastal areas with outside countries may someday pose serious political challenges to China’s concept of national sovereignty. A natural economic territory involving China’s coastal regions may widen the income gap between developed and underdeveloped areas and shake China’s national unity, particularly if the income generated in the NETs is not allocated to other areas through some income reallocation system.

(6) *Less Institutionalization.* Although the main form of today’s economic regionalism is institutional in nature (e.g., NAFTA and AFTA), we are witnessing the development of less institutional forms of regionalism, particularly in the Asia-Pacific region, as exemplified by APEC and the NETs. APEC, it should be remembered, is neither a customs union nor a free trade agreement, and does not have any policy instruments that are discriminatory against nonmembers.

We may point out some reasons why the Asia-Pacific regionalism is less institutionalized than other variants. First, the diversity of the members prevents tightly institutionalized integration. Second, as most of the Asia-Pacific nations won independence just forty or fifty years ago, the nation-building processes are still under way in most of them. These countries put a high priority on maintaining national autonomy and independence. That is, most of the countries in the region want both to maintain policy independence and to obtain the economic benefits of joining in regional economic integration. Third, Asia-Pacific economies are so dynamic that economic regionalism can be developed without any institutionalized or discriminatory measures. Fourth, looking back at the postwar history of the region, rather than widening and deepening relations with neighboring countries, most of the countries of the region first developed their relations with the United States. The postwar international relations of the region based upon bilateral relations and centered on the United States (a “hub and spokes” system) provided the region’s countries with a stable political and economic environment, thereby preventing more truly multilateral and institutional regionalism from developing.

Asia-Pacific Regionalism: Community or Association?

How should we characterize the regionalism emerging in the Asia-Pacific region? Do its members constitute a community or an association of nations (more precisely, an association of states)? The difference between the two is akin to the distinction made between the nation and the state. A nation is a group of people who imagine that they are bound together by

⁷ On the NETs and their political implications, see Amos A. Jordan and Jane Khanna, “Economic Interdependence and Challenges to the Nation-State: The Emergence of Natural Economic Territories in the Asia-Pacific,” *Journal of International Affairs*, vol. 48, no. 2 (Winter 1995), pp. 433-462.

natural ties, including history, language, culture, and customs.⁸ A state, on the other hand, is a mechanism of governance or a set of institutions deliberately created by a person or persons invested with the power to rule. The former can be likened to a product of nature's evolutionary hand, the latter to an artificial construct.

Mirroring this contrast, there are two processes by which countries come together to form a regional grouping: community-building and institution-building. Community-building is a gradual process requiring decades or even centuries; the prime movers are people and firms, not governments. This is due to the fact that shared history and geography are the foundations upon which communities are built. As the development of modern technology endows mankind with ever more advanced means of transportation and communication, distances shrink and flows of people, goods, and information across borders—what have been termed “transnational transactions”⁹—take place with ever greater frequency, promoting the mixing of peoples and expanding the sphere of the living space they share. The swelling of transnational transactions is gradually eroding national borders: the emergence of the NETs observed in the Asia-Pacific region is one concrete manifestation of this phenomenon.

Institution-building, meanwhile, refers to a process by which political authorities (often states) deliberately establish frameworks or systems to achieve some end. Institution-building is in all cases a conscious response to some perceived need, be it pressing or trivial. Examples include states entering into an alliance for mutual defense to counter a threat from a common enemy or forming a trade organization to compete with powerful economic rivals. Indispensable to the effectiveness of such systems are specific objectives and clear rules governing their operation. Common philosophies, benefits, objectives, and value systems are the ties that bind together countries that pursue institution-building; even assuming that they share geography or history, those factors play only an auxiliary role in the process.

Thus even states that are geographically distant from one another regularly form alliances and economic organizations: the Organization for Economic Cooperation and Development (OECD) is illustrative of the phenomenon. Since this group lacks shared geography, it is a bit of a conceptual leap to term it a “region,” although it might be thought of as such in a theoretical or functional sense.

Given the above analysis, how should one characterize the phenomenon widely referred to as Asia-Pacific regionalism?

Most of the government officials, academic experts, and business leaders directly involved in organizing the various cooperative initiatives to date in the Asia-Pacific region (beginning with the late Japanese Prime Minister Masayoshi Ohira, whose call for economic cooperation in the Pacific basin found expression in the formation of the Pacific Economic Cooperation Conference in 1980) have tended to refrain consciously from using the term “community,” judging it too ambitious. They have also shied away from talk of rapid institutionalization and have shown a marked preference for a process-oriented rather than a results-oriented approach to regional cooperation, thereby demonstrating that community-building in fact occupies a central place in their thinking on regionalism.

It is interesting to compare Asia-Pacific regionalism with that in Europe, today embodied by the European Union. It is often said that regionalism in the Asia-Pacific region differs from its European counterpart in that the former is not institutionally oriented. But it should also be

⁸ Benedict O'G. Anderson, *Imaged Communities: Reflections on the Origin and Spread of Nationalism* (revised edition), London: Verso, 1991.

⁹ Karl Deutsch, *Nationalism and Communication*, Cambridge, MA: MIT Press, 1953.

noted that European regionalism is based upon the image of a community of European peoples, formed naturally over the course of several centuries and undergirded by shared history and culture. Indeed, it is precisely because such a community has evolved that Europeans are today struggling to endow it with appropriate institutions—simply put, a supranational decision-making structure.

At the risk of oversimplification, European regionalism might be summed up as one in which the community is a “given” and the region’s constituent members want to establish various institutions in conformity with the situation. What originally motivated Europe’s drive to set up a regional institutional structure was the need to present a united front against the Soviet-dominated Eastern bloc; today partisans of European regionalism are concerned about competing economically with the United States, Japan, and the industrializing economies of East Asia.

Nothing that can justifiably be called a community has yet appeared in Asia-Pacific international relations. This is precisely why those involved in promoting regional cooperation have generally focused on community-building efforts. It is also why they are cautious about the prospect of rapidly establishing an institutional framework.

The Future of Regional Economic Cooperation: Tasks for APEC

APEC has become a key mechanism for promoting regional dialogue and economic interdependence, with an emphasis on the need for nondiscriminatory trade and liberalization and development cooperation.

In fact, the November 1994 APEC informal summit held in Bogor, Indonesia, marked a significant milestone in the effort to move from a loose consultative body to an organization with concrete goals and a timetable. The accord announced in Bogor aims to create a *de facto* free trade area encompassing the entire Asia-Pacific region while respecting the liberalization policies of individual members and different stages of development.¹⁰

APEC includes two regions in which different integration processes have been under way. Economic integration in North America (which is expanding to Central and South America as agreed at the Miami summit meeting last December) is being accomplished through removing barriers at national borders. A free trade agreement has become the key instrument for this. Asian economic integration, on the other hand, is occurring naturally (unintentionally) through market mechanisms under the GATT system, without the use of institutionalized discriminatory measures against outside countries.

Thus when U.S. President Bill Clinton introduced the concept of an APEC free trade area at the November 1993 Seattle informal leaders’ meeting, perceptions of and responses to the idea varied among the United States and the Asian members. First of all, the relationships between the Asian economies and the United States are not the same as those between Latin America countries and the United States. Of course, the market and capital provided by the United States are quite important for the economic development of Asian economies. It is not certain, however, that Asian economies have a vital interest in joining in a regional arrangement mainly defined by the policy agenda of the United States. That is, while the United States regards the creation of an institutionalized arrangement of economic cooperation as in its vital interest, most of APEC’s Asian members prefer informal and flexible arrangements open to the entire world. Since the Seattle meeting, different perceptions regarding how to organize APEC have come out more clearly.

¹⁰ “APEC Economic Leaders’ Declaration of Common Resolve,” Bogor, Indonesia, November 15, 1994, in *Selected APEC Documents*, Singapore: APEC Secretariat, February 1995.

Because of its diverse makeup, APEC has concentrated on those areas of concern in which member economies have the best chance of success. To prevent polarization, members have adopted a decision-making process based upon consensus. Indeed, APEC has so far placed a higher priority on creating an atmosphere of cooperation (“habits of cooperation”) and on promoting confidence-building than on executing agreed policies.

At the Seattle APEC ministerial meeting in November 1993, members agreed formally to establish a Committee on Trade and Investment, aimed at fostering the process of trade and investment liberalization in the region. Participants in the 1994 Jakarta ministerial meeting agreed to set up an Economic Committee. These and other actions indicate a move by APEC toward institutionalizing Asia-Pacific cooperation, or a shift in priority from the discussion process itself to actual policy implementation.

The road ahead for APEC, however, will not necessarily be smooth. There remains some concern about whether APEC can become an effective regional organization. Despite embracing the concept of free trade and liberalization, APEC members have varied ideas about the future of the forum and how it should operate.

One of the most serious concerns is that the commitment to liberal and open international trade and investment varies a great deal within the region. There are states in Asia that still take a more traditional view of economic sovereignty. Thus the process of creating greater transparency and openness through APEC is bound to be painful as it provokes resistance from powerful domestic vested interests.

Since the establishment of the APEC forum in 1989, members have remained widely split over how far and how fast it should be institutionalized. For example, most of the Asian members are still negative regarding the promotion of regional liberalization through APEC. Instead, they prefer to follow the path toward global liberalization as established by the GATT/World Trade Organization (WTO), as well as to undertake unilateral measures in a concerted way.

The United States (and Australia and Canada, to a lesser extent), on the other hand, intends to make full use of APEC to promote liberalization, including the start of an “APEC Round” of negotiations. In fact, calls to move APEC faster in the direction of institutionalization continue to grow louder. Sandra Kristoff, then director for Asian affairs at the U.S. National Security Council (now U.S. ambassador-designate for APEC affairs), proposed that APEC should become a formal economic cooperation association.¹¹

Second, there is also disagreement over APEC’s guiding principle of “open regionalism,” especially the question of whether liberalization measures within APEC should be unconditionally applied to non-APEC members, or only to those nations that have undertaken as much liberalization as member states on a reciprocal basis, as is the case with the North American Free Trade Agreement. This will be a quite sensitive issue. It may offer a way to link regionalism with globalism, but this open regionalism could also create tensions between developed and developing countries. Most of the Asian members of APEC advocate a nondiscriminatory policy. They also point out that a “solid system” like NAFTA’s free trade zone would not be suitable for such a diverse region as Asia. They oppose the hasty institutionalization of APEC and the adopting of binding agreements on the grounds that Asia-Pacific economies are at different stages of development, and that this should be taken into account when determining the pace and scale of liberalization for each. This stance is based upon the belief that as the region’s economic players become fully aware of the benefits of liberalization, they will inevitably move

¹¹ Hadi Soesastro, “APEC’s Institutional Development from an ASEAN Perspective,” in Hadi Soesastro ed., *Indonesian Perspectives on APEC and Regional Cooperation in the Asia-Pacific*, Jakarta: Centre for Strategic and International Studies, 1994, p. 160.

in this direction, without the need for binding agreements.¹² One possible problem with this approach is that if the speed and scale of liberalization is decided mainly by each national government, the process of developing a regional free trade area will very likely be delayed by domestic opposition in each country.

Of much greater concern is that the United States will resort to bilateral solutions—as it has done with Japan—if it perceives that the liberalization efforts of others are either too slow or limited. Furthermore, if the United States loses faith in APEC, it might attempt to expand the scope of NAFTA into Asia on a bilateral basis. Because of its potential for divisiveness, that outcome would be a nightmare for not only Japan but also for other Asian economies.

In order to avoid such a situation, the United States and the Asian economies should move toward a more ambitious program to ensure open regionalism, as noted in the second report of APEC's Eminent Persons Groups. In short, member economies should maintain the principles of multilateralism and nondiscrimination.¹³ In addition, they should work to seek agreement on such areas as trade liberalization, the adoption of an investment code, antidumping measures, and a mediation mechanism to manage intraregional disputes, thereby creating a de facto free trade area in the Asia-Pacific region.

At the same time, APEC must create some policy instrument by which the developing and smaller countries can maintain economic and political autonomy vis-à-vis the larger, developed countries. As mentioned earlier, one of the striking characteristics of the emerging regionalism, particularly in the Asia-Pacific region, is the "internalization" of the North-South problem within one region. Thus regionalism contains elements capable of creating domination-dependence relationships, or polarization.

It is important to understand the perspective of developing countries as they consider a regional economic organization like APEC. Developing countries try to secure market access and foreign direct investments within such regional arrangements; at the same time, they seek to avoid being "caged" completely into a regionalism including major powers. Thus the developing countries try to form a coalition to maintain their autonomy and independence. Malaysian Prime Minister Mahathir Mohamed's proposal for an East Asian Economic Caucus (EAEC) can be understood in this context as part of the effort by developing countries to maintain and even to increase their autonomy within Asia-Pacific regionalism.

The developing countries within APEC also want to make regionalism as flexible as possible, to maintain economic relations with countries outside the region to secure market access and foreign direct investment from them, and to counterbalance politically the large developed countries within the region. Outside countries are now positively responding to these moves. The Asia-EU summit meeting planned for April 1996 in Bangkok is part of these moves. These efforts on the part of APEC's developing member economies will help prevent Asia-Pacific regionalism from becoming a closed economic bloc.

Another task for APEC that should be noted relates to development assistance. APEC needs some scheme to help narrow the income gap and promote regional cooperation on an equal basis. Although recently more attention has been paid to trade and investment liberalization/facilitation issues, APEC must place a much higher priority on development cooperation, thereby strengthening the economic basis of the developing countries. APEC should not become a single-

¹² See, for example, Ross Ganault, "Options for Asia-Pacific Trade Liberalization (A Pacific Free Trade Area?)," in Chia Siow Yue, ed., *APEC: Challenges and Opportunities*, Singapore: Institute of Southeast Asian Studies, 1994, pp. 94-112.

¹³ Stephen Haggard, "The United States and Regionalism in Asia and the Americas," paper presented to the Washington Policy Conference on Regionalization of the World Economy, October 5-6, 1994, Washington, DC, coorganized by the Japan Institute of International Affairs (Tokyo) and the Institute of the Americas (San Diego).

issue organization. That is, trade and investment liberalization should not be the only agenda of APEC.¹⁴

Political-Strategic Objectives of Regional Economic Cooperation

The creation of a de facto free trade area in the region will serve several political-strategic purposes:

(1) It will sustain U.S. economic interests, thereby preserving the strategic importance of the region to the United States. Asia-Pacific cooperation is expected to encourage the United States to maintain its interest in Asian affairs, thereby contributing to the maintenance of the U.S. political and military presence in the region. Asia still needs the involvement of a reliable outside power to sustain a regional order. The United States is suited for this role as a regional stabilizer. In this regard, Asia-Pacific economic cooperation will be a hidden driving force for a stable regional political and security environment.

(2) It will help maintain harmonious economic relations between Japan and the United States, which is of utmost importance not only for both nations but also for the peace and prosperity of the entire region. APEC will also provide a convenient framework for Japan to take a leadership role in regional affairs without causing undue concern by the Asian countries. In addition, APEC will serve as a regional framework for Japan to share a leadership role with the United States. Generally speaking, a hegemonic power like the United States is often reluctant to accept the reality that its hegemonic power has declined, and that its leadership role has to be shared with other major powers. A regional framework will serve to make a transfer of a part of the leadership role proceed more smoothly.

(3) It will help to bring an emerging giant, China, into a regional arrangement within which it could play a positive role for regional stability. Immediately after the end of World War II, a drastic political transformation took place in China. As a result of Chinese domestic turmoil, coupled with the shadow of the emerging Cold War confrontation, the international framework of the Asia-Pacific region was formulated without the participation of China. China was isolated for a long time from exchanges with the market economies of the region. This had been one of the most serious factors destabilizing the region. The great task facing us now is how to accommodate China into a regional framework as well as a global one. There is a widespread fear of potential Chinese expansionism in many quarters of the region. China's tendency toward unilateral action and its traditional concept of national sovereignty, coupled with the recent remarkable economic achievements and the rapid modernization of its military, greatly worry the neighboring countries about China's future role in the region.

At the same time, it will be very difficult to resolve many of the regional issues in Asia without China's constructive engagement, as is seen in the South China Sea issue. It will also be impossible to establish a more open and liberal trade and investment regime in Asia unless China takes part. Integration is the key. A stable and secure Asia is best achieved by trying to integrate China into the region rather than contain it. APEC, together with other regional instruments such as ARF, will be a major regional means of achieving this objective.

In this regard, China's integration into GATT/WTO figures prominently. There is much ground for a prudent approach to China's membership in GATT/WTO. GATT has never had such a communist giant as China in its regime, causing reasonable concern on the part of the United States and others about the possible effects of China's membership on the overall operation of the global trading system. Such a concern, however, should not override consideration

¹⁴ Hadi Soesastro, *op. cit.*, p. 163.

of the overall benefits of integrating China into a global trading scheme and of encouraging China to adjust its economic system to bring it more in line with the market economic system.

(4) The creation of a regional de facto free trade area will help to create a cooperative relationship between the industrialized countries and the developing countries of the region that could serve as a model for the rest of the world. In particular, APEC could provide a useful multilateral forum to promote development cooperation (e.g., development of human resources and infrastructure) as well as trade liberalization and trade facilitation, thereby contributing to the welfare of the developing countries.

(5) It will open APEC to the outside world and will place a check on the inward-looking moves by NAFTA and the European Union. In this context, APEC's strategy of strengthening globalism through "open regionalism" has to be pursued more seriously.

(6) It will ensure that the annual informal APEC summit meeting will provide an overall framework for regional confidence-building and cooperation. The APEC leaders meeting can be an excellent forum for putting regional pressure on a country that deviates from the established "code of conduct." In this regard, the annual summit meeting has important political and security implications as well as economic ones.

Political Issues to be Considered

Although we speak often about the post-Cold War era, Asia is still in the post-colonial era, a fact that heightens many Asian nations' concerns about ceding national sovereignty in the name of regional cooperation and integration. The course of history in Asia over the last hundred years has revolved around the struggle of Asians to rid themselves of Western colonialism and to build independent nations. In the post-colonial era, the peoples of Asia have had to grapple with the concept of the nation-state, a political body common to the West but alien to Asia. Asians have experienced forms of governance ranging from socialist totalitarianism to military dictatorship, military-party coalition, and democracy. Asians have worked hard to recover economically from the destruction of World War II and even more to overcome the long exploitation of the colonial period. Asians are now struggling to carry out the difficult task of coordinating the political, economic, and social systems borrowed from Western society with indigenous tradition and social structures, while simultaneously making them compatible with the rest of the world in radically changing national, regional, and global environments.¹⁵ This puts a huge burden on policy developments in these nations. Gradual steps are needed to encourage them to engage in more open and liberal political and economic systems. Reflecting the past history of intervention by major powers, most Asians seem ambivalent about regional unity, having just secured their independence. Cultural diversity is exalted, with a drive for national identity a strong force. They are suspicious of what they see as attempts by the "great powers" to reassert influence in new ways. Only in trade and investment do the nations of the Asia-Pacific region have the beginning of strong ties to one another.

In addition, there remain many legacies from the history of the region which, without careful attention, will obstruct the stable development of regional cooperation.

First, we cannot ignore the fact that post-war settlement of the Second World War has not been completed in this region. Because of the Eurocentric approach of the Allied powers during the war, Asia was left as an area of secondary importance, and post-war planning was not

¹⁵ See Robert A. Scalapino, "A Framework for Regional Security Cooperation in Asia," *The Prospect of Security Cooperation in Asia*, JIIA Paper No. 7, Japan Institute of International Affairs, 1992.

coordinated by the time the war ended. For example, the Korean peninsula was the subject of a tentative framework of trusteeship under the United Nations, which ultimately resulted in the division of the peninsula, seriously destabilizing the region. Moreover, there was little agreement among the Allied powers about the future of the colonies in the region. The conflict and civil war in Indochina reflected the lack of policy coordination among the Allied powers. This resulted in radical liberation movements and civil wars and, finally, the massive involvement of U.S. forces in the 1960s and 1970s. Indochinese states are still looking for their appropriate places in a changing regional setting, although Vietnam joined the Association of Southeast Asian Nations (ASEAN) recently.

Second, the Cold War has had a great impact on the region. Although some regional issues and problems existed before the Cold War, they did develop during that period and were in part shaped and reinforced by it. Without the Cold War, for example, the Soviet Union would not have supported unification through military means by North Korea, and the United States would not have intervened in Indochina. Cold War history is not yet entirely obsolete in this region. Some states still are controlled by communist parties. The relationships between Taiwan and China and between the two Koreas are examples of ideological and civil war. The Cambodian conflict falls into this category to some extent. Thus we can see a set of unresolved rivalries and flashpoints as a legacy of the Cold War in contemporary Asia.

Third, as a result of Cold War divisions, together with a huge diversity found in the region, this region has been characterized by the absence of significant multilateral political organizations, either regional forums or military alliances, except for the subregional arrangements in Southeast Asia and the South Pacific. In addition, there emerged internal threats to security: antigovernment insurgencies in various parts of Asia took their toll on nascent nations.

Fourth, most of the Asian nations achieved independence during the intensification of the Cold War, and some of them have become industrial powers. As a result, their international relations have been much constrained and shaped by the Cold War. With the lifting of these constraints, it is still not clear what regional pattern of relations will emerge. These nations have no modern experience of how to relate to each other outside of the old, Cold War context.

Fifth, there remains strong fear in the region of Japan becoming a military power commensurate with its economic power. China and Korea, especially, still remember the hard times under Japanese domination. One legacy from this period is a politically hamstrung Japan, which has not been able to play a leadership role in the region.

Sixth, the recent economic prosperity of the region has increased its strategic potential. As the nations of the region become richer, they can devote more resources to defense capabilities. As they have become more advanced technologically, they are increasingly able to develop and operate sophisticated weapons.¹⁶

Conclusion

Building a community requires a lengthy process and the participation of all Asia-Pacific peoples. For the moment, all we can do is wait for the myriad processes of regional interaction and cooperation to bear fruit. It is with these considerations in mind that the proposed EAEC should be examined. Since EAEC would probably serve above all to improve relations among peoples in the region, participants would be well advised to use it as a forum for developing and affirming an Asia-Pacific identity, one that includes Australia and New Zealand. Only such

¹⁶ See, for example, Desmond Ball, "Arms Acquisitions in the Asia-Pacific: Scale, Positive and Negative Impacts on Security, and Managing the Problems," paper presented to the Ninth Asia-Pacific Roundtable, Kuala Lumpur, June 5-8, 1995.

an approach would send a strong message to the United States, which has been apt to turn inward toward its partners in the North American Free Trade Agreement.

The above discussion suggests the following questions: In the absence of a strong community consciousness, is there any room for an institutionalized regional organization in the Asia-Pacific region? Is it possible for the governments in the region to cooperate in the pursuit of common interests? APEC was certainly founded to provide a framework for just such cooperation.

When adopting initiatives, however, more ambitious members of APEC must not aim too high, lest they alienate their more cautious partners. At the same time, a cooperative framework like APEC is devoid of meaning if it fails to carry out meaningful objectives. Setting appropriate objectives and determining the proper speed at which to achieve them are highly demanding tasks because of the diverse makeup of APEC.

Successfully resolving such sensitive problems will require patient diplomacy. If the three powerful countries in the region—Japan, the United States, and China—view APEC as an arena in which to struggle to advance their own narrowly defined national interests, Asia-Pacific regionalism will become a hollow concept. The future of APEC depends above all upon whether its members are able to find common objectives and incentives that enlist these three powers in the cause of regional economic cooperation. In this context, some mechanism for regulating the major powers' triangular relationships and for constraining deviant behavior has to be established.

If Asia-Pacific regionalism is to develop and flourish, the governments and peoples must simultaneously pursue both community-building and institution-building in such a way as to keep either approach from interfering with or negating the effects of the other. Neither the European approach to regionalism, characterized by efforts to develop supranational institutions on the foundation of a preexisting community, nor the North American approach, which views institution-building strictly in terms of instrumental values and attaches no priority to fostering a supporting community, are appropriate for the Asia-Pacific region.

With respect to the emerging regional arrangements, we should not be too concerned at this stage with grand architecture or become too involved in elaborate discussions on the structural shape of regional cooperation. Our approach should be organic, concentrating on the practical and the achievable. We should be careful about putting forward sweeping initiatives that would run counter to many Asian preferences for gradualism and confidence-building. The institutional form will only emerge over time as concrete Asia-Pacific cooperation develops and genuine regional confidence is established. A practice of talking regionally but proceeding unilaterally will undermine that effort.

THE CONTEXT OF APEC: U.S.-JAPAN RELATIONS

Kenneth B. Pyle

The search for a new order in the Pacific is proceeding as though it were heeding an old Spanish proverb. "Traveler," says the proverb, "there are no roads. Roads are made by walking." Asia-Pacific Economic Cooperation (APEC), the most important effort to find a way to a new order, is a forum for discussing trading and financial relationships and principles in the region. It is an initial effort, a groping, for some kind of regional economic organization. Former Japanese Prime Minister Tsutomu Hata approvingly described this approach as "creeping incremental gradualism by consensus." The justifications for this tentative, experimental, approach to the formation of a regional organization are familiar: in the Asia-Pacific region, unlike Europe, there is no historical basis for an international state system; there have been few multilateral organizations in the region; there is too much diversity; there are no common cultural traditions; Asians prefer an organic approach rather than an a priori rules-based approach.

These justifications for a slow, evolutionary approach easily become an excuse for failing to grapple with the new dynamics that will govern the region's international relations in the early part of the coming century. Most notable is the failure to deal with great power relations and with the security dimensions of the new order. Will there be a continuation of bilateral alliances between a still-preponderant American superpower and individual Asian states? Will there be a balance-of-power system among China, Japan, the United States, and other countries? How will the dynamics of economic and military power relate? Will there be, in addition to APEC, a regional security organization? How will the region's power relations fit into a larger global system of international relations? In short, what will be the forces that shape the context of APEC?

The peculiar, unanticipated end of the Cold War left an awesome void of vision in the camp of the victors. The Soviet empire and its ideological underpinnings collapsed not as a result of defeat on the battlefield but through a massive implosion of the system. Rarely in history had the components of world order changed so abruptly. The victorious powers were left with no clear understanding of what had happened or what was to follow. A naive triumphalism filled the void. In the summer of 1989 a State Department official, Francis Fukuyama, published an essay entitled "The End of History" which drew international attention and bespoke this triumphalism. The essay proclaimed that, having defeated the forces of fascism and communism in the 20th century, the West had triumphed in grand historical terms. Fukuyama declared that the United States and its allies had achieved "the end point of mankind's ideological evolution and the universalization of Western liberal democracy." There were, at last, no ideological competitors. "The triumph of the West, of the Western ideal," he wrote, "is evident . . . in the total exhaustion of viable alternatives to Western liberalism."¹

¹ *National Interest*, Summer 1989.

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Having no new goals and no concept or paradigm to replace the Cold War and seeing no immediate threats to security, American policy was beset by inertia and a lack of vision. Institutional rigidities, including adherence to the prevailing alliance system, held sway. American leadership groped with limited success to redefine security in the post-Cold War circumstances. In contrast to the aftermath of other great wars, the victorious powers have not clearly articulated a coherent definition of what constitutes security in the new era and accordingly have not created new institutions to maintain it. What is the nature of security? What are the underlying principles? What are the priorities? American triumphalism, having no new goals, is content with the old institutions in a modified form, a continuation of the American security blanket for the region, with a continuation of the same goals now defined simply as “enlargement,” and with the further extension of economic liberalism.

In Asia there is another form of triumphalism. The Cold War masked the emergence of not only the Japanese economic superpower but also the emergence of other substantial economic powers like South Korea, which were driven by a suppressed nationalism now coming to light with the end of the Cold War. This hitherto suppressed nationalism is now expressed in the confident belief that prosperity is the result of the unique values and institutions of countries in the region. Malaysian Prime Minister Mahathir Mohamad, Singapore’s diplomat Kishore Mahbubani, and many others have expressed these views. For the most part this optimism has been expressed in criticism of Western values, and a clear vision of a future regional order is not yet apparent. Hence the argument that APEC must take an organic, evolutionary approach.

The most ambitious and bold effort to propose a new paradigm is the work of Yasusuke Murakami, a seminal thinker who has been called the Max Weber of Japan. Prior to his untimely death in 1993, Murakami had become the leading thinker of the Japanese internationalists who gained influence in the 1980s under Prime Minister Yasuhiro Nakasone. When the Cold War came to an end in 1989, Murakami was appalled by Western triumphalism. Shortly before his death he published a magisterial work of grand historical analysis, *Han-koten no seiji keizaigaku* (An Anticlassical Political-Economic Analysis), in which he wrote, “Some people regard [the collapse of the Soviet socialist system] as a victory of European and American style capitalism and believe that they can celebrate the fulfillment of European modernity. But... this victory contains the seeds of self-destruction.” He added, “It is not history that is about to end but the modern age of Western origin.” Murakami’s work argued that Western capitalism had lost its universal value as a model and that a new form of Asian capitalism, pioneered by Japan and adopted in other East Asian countries, was the wave of the future.

The extraordinary increase in the economic strength of countries in the region and their growing self-assertion highlight the uncertainty about the security dimensions of the future regional order that must support APEC. At the heart of this uncertainty is the future of U.S.-Japan relations. For the intermediate future, a major determining factor of the dynamics of the regional order is this bilateral relationship. Japan-U.S. relations are pivotal because they link dominant military and dominant economic power and thus provide the potential for a strong stabilizing force in the region. This paper, as part of an examination of the broader setting of APEC, explores the trajectory of the U.S.-Japan relationship, analyzes the controlling forces for change, and examines the efforts of both countries to deal with the post-Cold War reality of the region. Both Japan and the United States are undergoing major changes in their relationship to the international system. How these transitions work out will determine the possibility of common purpose and the likelihood of a continuation of the alliance. Of the two, Japan’s emergence as an economic superpower and its historic transition is the more dramatic and problematic.

Japan and the International System: The Historical Legacy

Little in Japan's two-thousand-year history has prepared it for this new era in the Pacific in which it must play a leading role. Since Japan entered the international state system in the middle of the 19th century, its foreign policy has had several distinctive traits, none of which is conducive to the role of regional and international leadership it is expected to play. First of all, Japan has been a reactive state in its foreign relations. Since the Meiji Restoration of 1868 Japanese leaders have been keenly sensitive to the forces controlling the international environment; they have tried to operate in accord with these forces and use them to their own advantage. As a late developer, Japan learned to be responsive to conditions established by the powers and to react to opportunities that presented themselves. In the middle of the 19th century, when the West demonstrated its power by opening Japan, the Japanese quickly reacted by building a modern industrial economy; in the age of imperialism at the turn of the century Japan became an imperialist; after World War I, the Japanese accepted the Wilsonian redefinition of the international order. Only once, in the 1930s, did Japan abandon this cautious and circumspect approach—and even then many of Japan's leaders thought they were acting in accord with the trend of the times. After the end of the American occupation in 1952 the reactive nature of the Japanese state was even more pronounced. Adapting to the new conditions of the Pax Americana and the expanding free trade order that it fostered, Japan depended on its special relationship with the United States to take maximum advantage of the changed international system.

For most of the postwar era Japan has been almost wholly a passive, reactive actor in the international system. As a vice minister of international trade and industry said, in 1986, "Japan has usually considered the international economic order as a given condition and looked for ways in which to use it."² Prime Minister Kiichi Miyazawa, shortly before visiting Washington in the spring of 1993 for his first meeting with President Bill Clinton, told reporters that *gaiatsu* (external pressure) was necessary for the Japanese system to change. Foreign pressure, he said, is like a "mother telling her children to do this or not to do this, otherwise your neighbor may laugh at you; that is the way of education in this country." Japan would continue to need such prodding because *gaiatsu* is "just perhaps part of our culture," a way for Japan to adjust itself to "the modern world."

A second fundamental trait of Japan's international relations is that pragmatic nationalism more than fixed principles has been Japan's guiding philosophy. An opportunistic adaptation to international conditions in order to enhance the power of the Japanese state has been characteristic of Japanese foreign policy. The modern revolutions of other countries were impelled by rising middle class demands for political rights, equality, and democracy. But the Meiji Restoration—Japan's modern revolution—was first and foremost a pragmatic nationalist response by a rejuvenated elite to the threat that Western imperial power constituted for the Japanese state. One of the Foreign Ministry's leading thinkers recently responded to an American journalist's inquiry as to the place of fixed principles in Japanese foreign policy with the riposte that "the histories of our two countries are different. Your country was built on principles. Japan was built on an archipelago."³ Japan, he seemed to say, could not afford to take a stand on principle; its economy and geopolitical position made it too vulnerable; its peculiar dependence on trade left it with a feeling of insecurity that engendered a cautious, deliberate foreign policy, marked often by a narrow pursuit of self-interest.

² *Look Japan*, September 10, 1986, p.4.

³ Hisahiko Okazaki, "Aija chotaiken e no shinsenryaku," in *This is Yomiuri*, August 1992, pp. 42-90; translated as "Southeast Asia in Japan's National Strategy" in *Japan Echo*, vol. 20 (special issue 1993), p. 61.

A third legacy of Japan's foreign relations is the relative lack of positive experience in international organizations. Japan's historical position as a late-developer often cast it into the role of opposing the international status quo. Although Japan was a founding member of the League of Nations, occupying one of the five permanent seats on its Council, it was the only one not to have submitted a draft proposal for the League. Although Japan sought the permanent Council seat for the status it accorded, there was little expectation that the League would serve Japan's interests. Japan's indifference to the League was apparent from the relatively low level of personnel contributed to the League's secretariat. Following seizure of Manchuria, the League voted 42 to 1 to condemn Japan, and it immediately quit the League. The next multilateral involvement, the 1940 Tripartite Pact with Germany and Italy, though not a tightly binding agreement, was a part of the greatest tragedy in Japanese history. When World War II ended and the United Nations was founded, its charter referred to Japan as a former enemy state; those clauses still remain. Japan became a member of the United Nations in 1956 but has played a limited role. Although Japanese citizens have headed the UN health, refugee, and Bosnian operations, the personnel contributions are still limited. As of 1992, 89 Japanese filled professional UN posts, less than half the 194-person mean (based on Japan's financial contribution to the world body). Japan is the second-largest financial contributor to the United Nations, but in terms of personnel contributions it is last compared to 19 other top donor nations.

A final historical constraint on Japan's capacity for international leadership is the difficult legacy of its relations with Asia. In the first four decades of the postwar period, Japan's relations with the rest of Asia were distant and largely limited to trade. The former empire had left a legacy of bitterness toward Japan in other Asian countries. The American occupation required the Japanese to make reparations, but on the whole Japan withdrew from close political ties and concentrated on rebuilding its own national livelihood.

Postwar foreign policy was shaped by the shrewd economic nationalism of Prime Minister Shigeru Yoshida (1946-54), who determined to adopt a passive role in the Cold War. He resisted U.S. efforts at the time of the Korean War to engage Japan in collective security agreements with other Asian nations. In the best Japanese tradition of pursuing pragmatic nationalism and adapting to world trends, he was determined to use the circumstances of the Cold War to Japan's advantage and to pursue a narrowly defined sense of economic self-interest. Yoshida contrived to keep Japan lightly armed and to trade bases on Japanese soil for a U.S. guarantee of Japanese security. It became an anomalous arrangement with astonishing longevity, and it epitomizes the peculiar context within which APEC evolves. Today, a half century after the end of the war, despite Japan's per capita GNP having risen to a level 50 percent higher than America's, 63,000 Americans remain at 94 military sites scattered about Japan.⁴

Avoiding any collective security commitments in Asia became an *idée fixe* of postwar Japanese diplomacy. Yoshida and his successors resisted an American effort to create an Asian counterpart of the North Atlantic Treaty Organization (NATO). They built an elaborate set of policies to prevent Japan's being drawn into any overseas commitments whatsoever. When the Japanese Self-Defense Forces were organized in 1954, the upper house of the Diet passed a unanimous resolution opposing their overseas dispatch. Subsequent prime ministers held the fixed position that any collective security agreement would be unconstitutional. Other subsequent, complementary policies included the three nonnuclear principles (not to produce, possess, or permit the introduction of nuclear weapons in Japan), the three principles proscribing arms and military technology exports, and the limitation of one percent of GNP for defense spending.

⁴ *The New York Times*, July 16, 1995. 46,000 are members of the U.S. armed forces.

By maintaining a narrow interpretation of the constitution, Japan's conservative leaders were able to limit positive commitments to the Cold War effort in Asia. Yoshida's firmness allowed Japan to avoid involvement in the Korean War. Similarly, in the case of the Vietnam conflict, while South Korea dispatched more than 300,000 troops, the Japanese were spared direct military involvement. Moreover, Tokyo avoided accepting refugees from Indochina. As of the end of 1994, Japan had permanently resettled less than 10,000 of the nearly 1.3 million refugees. Even distant Germany, a slightly smaller country, had accepted more than twice the number of refugees from Indochina as Japan.⁵

The Yoshida strategy had many successes, but in the long run it also had major drawbacks. It created a political-economic system in which the economic bureaucrats in the Ministry of International Trade and Industry, the Ministry of Finance, and the Economic Planning Agency, working cooperatively with conservative interests in business, guided the country's fortunes to achieve long-term goals, but it left the country unprepared to deal with the political consequences of this newly acquired economic power. Moreover, it ignored latent issues of wounded national pride caused by the subordinate role Japan adopted in the American world system. Political issues of war responsibility were left to fester, and international respect and trust were never fully restored. Two major developments in the last decade have begun to erode the basis of the Yoshida strategy and impel Japan toward a new foreign policy: 1) a vastly increased stake in the Asian economy, and 2) the new post-Cold War strategic environment.

Japan's Economic Surge Into Asia

A remarkable confluence of developments in the mid-1980s, constituting one of the most momentous changes in modern Japanese history, led to Japan's economic surge into Asia. Heretofore, Japan had kept its manufacturing base at home, but the new economic fundamentals made a dramatic change necessary. The most important development that provided the opportunity to establish a strong new economic role in the Asia-Pacific region was the Plaza Hotel Accord of 1985 and the sharp rise in the value of the yen that followed. At the Plaza summit, the leading industrial nations agreed to increase the value of the yen from 260 to 180 yen to the dollar. This international agreement made it profitable to shift the production and assembly of many Japanese manufactures to other Asian countries with lower wages. Thereafter, the yen continued to rise, making offshore manufacturing increasingly attractive. In addition, foreign direct investment (FDI) was made more attractive by rising production costs at home, Japan's tightening labor market, the change in comparative advantage, and the proximity of Asia's booming markets. Other significant developments at the same time included Japan's emergence as the world's largest creditor and donor of official development assistance (ODA), liberalization of the Japanese capital market, and foreign pressure to restructure the Japanese economy so as to reduce its trade surpluses and to increase the import of manufactured goods.

North America and Europe absorbed much of Japanese FDI, but Asia's share grew rapidly. By 1991 Japan had become the largest foreign investor in Singapore, Hong Kong, the Philippines, and Thailand, and the second largest in Taiwan, Indonesia, and Malaysia. By 1992 Japan had \$19.6 billion invested in the newly industrialized economies of Asia and \$35 billion in the countries of the Association of Southeast Asian Nations (ASEAN). Asian nations offered a growing market for Japanese goods. From 1986 to 1993 Japan's trade surplus with Asian countries rose from \$16.4 billion to \$55.6 billion, exceeding its surplus with the United States for the first time. Hisahiko Okazaki, a former ambassador to Thailand and a brilliant strategic thinker, in a long and thoughtful essay in 1992, advocated investment in Southeast Asia and the Chinese

⁵ Figures cited in the *Japan Times*, December 13, 1994.

coast as “a springboard for future economic expansion.” Okazaki saw the rise in the value of the yen after the Plaza Accord offering Japan an extraordinary opportunity to use FDI to create the basis for international leadership:

If Japanese overseas investment in the manufacturing industry continues unabated for another ten years, or even until the end of this century, this country is likely to find itself in a position comparable to that of Britain in the nineteenth century or the United States during the middle of the twentieth, racking up long-term trade surpluses and freely investing its excess capital overseas. This means Japan’s influence will be felt in some way or another in every major area of world economic activity. Even after its competitiveness declines, Japan, like Britain and the United States today, will have enough accumulated assets abroad to sustain future generations. Thus, overseas investment is also a good strategy for an aging society like Japan’s.⁶

It was in the fundamentals of these new economic interests that a coherent Japanese strategy in Asia began to take shape. This strategy was wholly driven by economic considerations. A half century of single-minded attention to promoting economic growth ensured that the principal motive forces of national life were the economic dynamism of Japanese firms, the institutional framework within which they operated, and the values of economic rationality that supported and motivated them. While the institutional legacies of the postwar experience continued to limit severely its competence in foreign policy, Japan moved swiftly and adeptly to seize a leadership role in Asia’s economic dynamism once domestic and international structural change made it attractive. The task of formulating a comprehensive and coordinated approach to Asia in terms of economic policies fit the postwar inclination of the Japanese state, with its strength in economic institutions, capacity for bureaucratic planning and coordination, and ability to fine-tune policies to enhance market forces.

What began to emerge was a series of policies to promote a regional division of labor under quiet Japanese leadership—a strategy that sought to lay the basis for a “soft,” regionwide integration of economies under Japanese leadership. In assessing the Japanese economic strategy in Asia, it is important to stress that much analysis has missed the mark. As Kozo Yamamura points out, “Japan is not building an inward-looking trade bloc or a yen bloc but vertically integrated production networks with increasing market power.”⁷ Since the mid-1980s Japanese multinationals and their keiretsu firms have been making huge investments to establish production networks across Asia. The inter-firm relations that proliferated during the high growth period at home are being replicated in Asia. That is, the small and medium-sized firms belonging to vertical keiretsu at home are following their parent firm abroad. In addition, majority-owned subsidiaries and local Asian firms are drawn into these networks. As Yamamura observes, “in both the automobile and electronics industries, a large and growing number of these ‘local’ suppliers used by Japanese manufacturers in Asia actually are Japanese firms.” For example, a Matsushita television plant in Malaysia depends on local suppliers for 55 percent of its parts, but over 90 percent of these parts are produced by Japanese affiliated firms in Malaysia. As the Foreign Ministry’s Okazaki wrote in 1992, by establishing offshore production networks in Southeast Asia it would not be necessary to worry about protectionism, nor would it make sense to seek an inward-looking trade bloc:

When the bulk of trade consists of captive imports from factories built through direct investment and the captive export of machinery and materials needed to produce such merchandise, there is little need to worry about protectionism. Indeed, current investment patterns are more likely to cause friction with areas outside the region than within it, as Western na-

⁶ Okazaki, *op. cit.*

⁷ Kozo Yamamura, “Japan’s Production Network in Asia: Regionalization by Keiretsu?,” unpublished paper, University of Washington, 1994.

tions begin to suspect Japan of exporting its system of vertically integrated corporate groups, or keiretsu, and shutting other industrial countries out of the market.⁸

The implication of this strategy was that so long as Japan maintained control of the move to offshore production networks and the process of captive imports and exports was maintained this would work to Japan's advantage. In contrast to what had happened in the United States, wrote Yuji Masuda of Tokyo University in 1994, "this is not a 'hollowing-out' of the structure of the Japanese economy but positioning Japanese industries and firms at the core of the networks that are now covering all of the Asian economies."⁹

Japan's net external assets rose from \$10.9 billion in 1981 to \$383 billion a decade later. By 1990 Japan had become the largest net creditor in the world—as Edward Lincoln has written, "the greatest creditor nation the world has ever known." In 1970, Lincoln notes, the cumulative value of Japanese overseas investments was \$3.6 billion; in 1980, \$160 billion; and in 1991, \$2.0 trillion.¹⁰ As a consequence Japanese were drawn into international affairs in a way unprecedented in Japanese experience. Earlier Japanese contact with the world through trade allowed the foreigners to be kept at arm's length. Imports and exports were most often handled through large general trading companies which required relatively little real contact. But the new investment patterns required genuine economic intimacy with other peoples. As Lincoln observes, "Successful direct investments require an understanding of foreign cultures, legal systems, idiosyncratic conditions in local financial and real estate markets, political systems, labor supply conditions, labor law or customary work conditions, and a tolerance and acceptance of diverse ethnic and racial groups."¹¹

This new human interaction with foreign peoples led the Japanese to think of the new era as one of *kokusaika*, or internationalization. The challenge of achieving a closer relationship with Asia was one of the significant aspects brought on by this period of internationalization. For four decades Japan had remained aloof from Asia, concentrating on investment and production at home. But the new economic forces radically changed this situation, and Japanese interest in the development of other Asian economies dramatically increased.

At the same time, it was difficult for Japan to exert political leadership in Asia because of the legacy of World War II. Japan's postwar conservative leaders had not dealt forthrightly with the Japanese role in Asia during the war. While many Japanese were severely self-critical in assessing Japan's wartime role, most mainstream conservative leaders were not.

The internationalists who advised Prime Minister Nakasone had tried unsuccessfully to deal with these issues. They argued that with such great new overseas involvement it was in Japan's national interest to abandon the Yoshida strategy and adopt a new role abroad. Nakasone and his advisors argued that Japanese had to develop a more liberal nationalism which would understand the need for a broader national purpose and a more active and responsible role in the United Nations and other international organizations. They stressed that Japanese must develop new and friendly relationships with other Asians to provide legitimacy for Japanese political-economic leadership in the region.

Nakasone left office in 1987 disappointed with the failure to realize a reorientation of national purpose. Despite the change in Japan's economic fundamentals, the balance of power was still with the policies of the past. Nakasone was attacked on all sides: by the bureaucracy

⁹ Okazaki, *op. cit.*

⁹ Quoted in Yamamura, *op. cit.*

¹⁰ Edward J. Lincoln, *Japan's New Global Role*, Washington, DC: Brookings, 1993, pp. 59-62; also Lincoln, "Japanese Trade and Investment Issues," in Danny Unger and Paul Blackburn, eds., *Japan's Emerging Global Role*, Boulder, CO: Lynn Rienner, 1993, p. 135.

¹¹ Lincoln, *Japan's New Global Role*, *op. cit.*, p. 58.

for overriding its prerogatives in trying to revise its narrow policies of self-interest; by the mainline conservatives who wished to hold to the successful Yoshida policies; by left-wing parties which saw him undermining the constitutional limits on Japanese foreign policy. As the Cold War abruptly ended at the close of the 1980s, Japan was still divided, adrift, and reactive in its foreign policy. The new post-Cold War strategic environment, however, provided further impetus, along with the changed economic fundamentals, to a decline in the Yoshida strategy.

The Post-Cold War Decline of the Yoshida Strategy

The purposeful and well coordinated advance of Japanese economic interests into Asia at the end of the 1980s provided a sharp contrast to the political immobilism that characterized Japan's response to the Persian Gulf War and the hesitant Japanese participation in Cambodian peacekeeping operations. The Gulf War was the first international crisis of the post-Cold War era, and Japanese leadership was wholly unprepared to deal with the new context of its foreign policy. The storm of international criticism that greeted the grudging support Japan gave the UN-sanctioned coalition stunned Japanese politicians. Protestations of constitutional inhibitions were no longer persuasive for a country of such economic power and prominence. Although Japan eventually contributed \$13 billion to the coalition, the failure to provide personnel in any form was widely criticized.

In the face of this international criticism, a new generation of assertive political leadership in the LDP demanded a reinterpretation of the constitution. The most prominent of these younger leaders were Ichiro Ozawa and Ryutaro Hashimoto. Ozawa dismissed the government's long-standing constitutional interpretation prohibiting overseas deployment of troops as a "subterfuge" of the Yoshida strategy, which he said had made Japan selfish and money-grubbing, ignoring the cost of maintaining the international freedom and peace upon which the Japanese economy depended.¹² Ozawa, whose thinking closely resembled Nakasone's, although the two were not close, headed a study group of the Liberal Democratic Party (LDP) on Japan's role in international society. In early 1992 the group recommended a reinterpretation of the constitution. "Japan," the report said, "is being asked to shift from a passive stance of mainly enjoying the benefits of a global system to an active stance of assisting in the building of a new order."¹³ The commission recommended a revision of the Self-Defense Forces Law so as to provide explicit legal foundation for what it called "international security," that is, collective security efforts sanctioned by the United Nations, such as participation in UN peacekeeping operations, a UN army, and UN-sanctioned multinational forces. The report did not, however, approve the concept of collective self-defense, which would allow the U.S.-Japan Mutual Security Treaty to be reciprocal.

Following intense debate the Diet passed the UN Peacekeeping Operations (PKO) Cooperation Bill on June 15, 1992, which ended the ban on dispatching Self-Defense Forces (SDF) troops abroad. It limited troop deployment, however, to logistical and humanitarian support, monitoring elections, and providing aid in civil administration. Under a compromise required to gain the support of small opposition parties, a section of the law entailing SDF involvement in armed UN missions, such as monitoring cease-fires, disarming combatants, and patrolling buffer zones, was frozen for the time being.

Passage of this legislation, as limited and constrained as it was, marked a significant step in the decline of "Yoshida politics." One sign of the erosion of the national consensus which the

¹² *Asahi Shimbun*, November 29, 1991.

¹³ *Asahi Shimbun*, February 21, 1992.

Yoshida strategy had held together throughout the Cold War was the diehard opposition to the PKO bill of the Socialist Party, whose lower-house members in symbolic protest submitted their resignations before the vote. It was the first major challenge to the foreign policy consensus since ratification of the U.S.-Japan Mutual Security Treaty in 1960 which had led to the largest mass demonstrations in Japanese history. In this case, however, the left-wing opposition failed. With the Cold War ended, the climate of opinion was unresponsive to its protest.

After passage of the PKO legislation, the government dispatched in September 1992 the first of a contingent of 600 soldiers for road and bridge repair, eight election monitors, and 75 police officers to join the UN peacekeeping mission in Cambodia. Participation in the United Nation's 22,000-member peacekeeping operation intended to end Cambodia's long civil war was a test case for the Japanese. It marked the first direct postwar involvement in military-strategic affairs in Asia. It was the first time since World War II that Japanese ground forces were dispatched to foreign soil.

Public support of participation in the Cambodian operation was fragile. The Japanese public tended to justify dispatch of SDF troops largely in terms of satisfying foreign criticism of Japan's failure to make personnel available to international peacekeeping. Typically, Japanese public discussion held that it was necessary for Japan to make a symbolic "contribution" to satisfy this criticism.

Self-Defense Forces, together with civilian police officers and election monitors, served under the UN Transitional Authority in Cambodia (UNTAC). Along with the Japanese peacekeepers came hundreds of Japanese reporters and cameramen intent on assessing the venture. It was fortunate that UNTAC was headed by a veteran Japanese diplomat, Yasushi Akashi, who understood the exceptional nature of the Japanese operation. Members of the SDF operated under a bewildering set of rules of engagement. Unlike other UN peacekeeping forces, the Japanese could use their weapons only in self-defense. They could not use them if they were obstructed in their duties or to protect other nationals. As one former Japanese general explained, "For the SDF to fire on the Khmer Rouge to protect non-Japanese would represent an exercise of the right of collective self-defense which the government has ruled out."¹⁴

UN officials were reportedly bitter over the special circumstances under which the Japanese peacekeepers operated. Even Akashi compared them to "maidens" because they were "rather timid and tentative." He described the Japanese participation as "teething experiences."¹⁵ In fact when a Japanese volunteer, not part of the official mission, and a Japanese policeman were killed in the spring of 1993, the Japanese media went into a "feeding frenzy," pandering to the public's shock at this first loss of Japanese life. Leading Japanese newspapers leaned toward withdrawal from UNTAC; a member of the cabinet also favored withdrawal; and the government dispatched a mission to seek relocation of Japanese participants to even safer areas. According to UN records, more than 20 Japanese policemen, nearly a third of the total, fled their assignments, taking their UN vehicles back to the safety of Phnom Penh. Four Japanese peacekeepers deserted the country and drove their UN vehicles across the border to Thailand, taking refuge in the Japanese embassy in Bangkok. A senior UN official remarked that "the only time the Japanese were tested by fire, they abandoned us. We understand the special constitutional restrictions on the Japanese, but in a situation of undeniable danger, how can we repeatedly ask people of one nationality, but not another, to take risks?"¹⁶ In the end the elections came off smoothly and the Khmer Rouge, for whatever reason, did not attack

¹⁴ Sachio Genkawa and Akihiko Ushiba, "Nakata Atsuhito-shi no 'ikun,'" *Shokun*, June 1993; translated as "The Peculiar Constraints on Japan's Peacekeepers," in *Japan Echo*, vol. 20, no. 3 (Autumn 1993), p. 9.

¹⁵ *The New York Times*, October 24, 1993.

¹⁶ *Ibid.*

other Japanese. Had more Japanese been killed it almost certainly would have disrupted the mission. Ozawa expressed surprise and relief that the Japanese had not been targeted.¹⁷ Successful completion of the Cambodian operation was an important point in the slow evolution of reorienting Japan's international role.

Groping for a Political Strategy in Asia

The sharply increased economic importance of Asian economies to Japan had to be supported by a new long-term political strategy. To underwrite its economic interests, the emerging strategy had four parts: 1) to reassure Asians that Japan would not translate its economic strength into military power; 2) to maintain a strong public commitment to the U.S. alliance to demonstrate Japan's intention of not becoming an independent military power; 3) to develop cultural policies that would strengthen Japan's identity as an Asian nation; and 4) to pursue an increased political role in Asia by working through multilateral institutions and fora.

Suspicion and concern over Japanese intentions were still high when the Cold War came to an end. When Japanese minesweepers were dispatched to the Persian Gulf in May 1991 to aid in the cleanup operation after the Gulf War, former Singapore Prime Minister Lee Kuan Yew worried that allowing the Japanese defense forces to participate in overseas operations was like "giving liquor chocolates to an alcoholic."¹⁸ It was not only memories of World War II that had to be overcome. Japan's subsequent aloofness from the region and narrow pursuit of its economic self-interest during the Cold War also deferred the task of restoring trust. The Yoshida strategy was a shrewd way to pursue Japan's postwar interests and to restore Japan's position of power and importance, but "what would have happened," Hisahiko Okazaki recently mused, "if Japan had pursued a normal military policy within the context of its postwar foreign policy framework, including the Japan-U.S. Security Treaty?" Okazaki speculated that active participation in the Cold War effort in Asia and in the Gulf War would have engendered "a relationship of trust and a sense of camaraderie" with other Asian nations: "A country wins the confidence of other nations through the repetition of such acts. Foreign peoples and governments have no way of knowing whether Japan is really the sane and responsible country it claims to have become until they have had a chance to observe it in action." Owing to the pursuit of the Yoshida strategy for the past forty years, "Japan forfeited its chance to build up a record as a country deserving of international trust." Economic aid also failed to win confidence in Asia as "the widespread perception of Japan as a country driven purely by economic motives makes this difficult."¹⁹

To reassure Asians it became almost a mantra repeated by Japanese officials that Japan would never again become an independent military power. As a Ministry of Finance report in 1990 emphasized, Japan, "learning from the lessons of history," would remain a "non-military economic power," a "non-ideological nation," and a "new-style peace-loving and cultural nation."²⁰

Similar themes were repeated throughout the early 1990s. In 1992 Prime Minister Miyazawa appointed a Roundtable on Japan and the Asia-Pacific Region in the 21st Century, chaired by the president of Keio University, Tadao Ishikawa, a scholar of modern Chinese affairs. Characterized by extreme caution and circumspection, the roundtable's final report, issued just prior to Miyazawa's tour of Southeast Asia at the beginning of 1993, emphasized that Japan could no longer remain aloof from the problems of Asia but rather must take a more active political

¹⁷ Personal interview with Ozawa, May 1993.

¹⁸ *International Herald Tribune*, May 4, 1991.

¹⁹ Okazaki, *op. cit.*

²⁰ Foundation for Advanced Information and Research, *Interim Report of Asia-Pacific Economic Research*, Tokyo: FAIR, 1990, pp. 217, 226

role in the region. But the meaning of this emphasis was left vague, and the entire tenor of the report on the contrary implied a continued low profile.²¹ The prime minister's speeches on the tour, which were supposed to enunciate a "Miyazawa Doctrine" by announcing a greater political profile for Japan in Asia, were even more bland than the report. Commenting on the prime minister's speech in Bangkok, which assured Asia that Japan would "never again become a military power" and would "always think and act together" with Asian peoples, the *Nikkei Weekly* derided Miyazawa for his blandness and said it raised questions about the purpose served by organizing this study group in the first place.²²

Given the evidence of Asia's new economic dynamism and Japan's deeper economic ties to the region, some Japanese leaders were prepared to abandon a defensive stance and advocate closer identification with Asia. They advocated policies that would enhance awareness of common cultural traditions that Japan shared with Asia. One such effort that drew considerable attention was a 1993 essay by a high-level Foreign Ministry official, Kazuo Ogura, asserting that "Western-style modernization and industrialization [had reached] a dead end."²³ It was necessary to abandon seeing Asia in the negative light of the Western world view, as stagnant, passive, authoritarian. Asia at the end of the 20th century was becoming dynamic, active, and the new source of universal values. An "Asian restoration" must begin by overcoming past animosities among Asian countries:

It will be difficult for Asia to take off and soar again unless it can get over the legacy of ill will caused by past invasions and strife... Japanese awareness and contrition alone will not suffice.... The countries that were injured will have to refrain from being prisoners of the past and adopt a future-minded position.

Another step important to the rise of Asia, he wrote, was overcoming the influence of the Western-trained Asian elites who were tied to a Western mind-set:

As we prepare for the twenty-first century, we must seriously reexamine the role of these Western-oriented intellectuals and leaders... [who] are using their links with the West to maintain the legitimacy of their superior position. What we see is in a sense a survival, although under a different guise, of the old colonial arrangement by which natives with Western learning could skillfully develop ties with the rulers and thereby dominate the un-Westernized general populace. Under these circumstances, members of the political elite have been hesitant to stress Asian values lest they undermine the legitimacy of their own power.

To remedy this situation, Asia must begin to train its own leaders. Asia could produce universal values to transmit to the world by developing a "theory of Asian capitalism."

What Asia has treasured is the view of society and human beings that underlies such areas as Japanese-style management, lifelong education, and family upbringing, and it has also treasured the economic and social systems that are built on this view.

Ogura clearly had in mind the Japanese economic system when he spoke of Asian ideals that had universal significance. When he spoke of a "theory of Asian capitalism" he left no doubt that Japan was the model. To spread these Asian values, to bring about an "Asian restoration," it was necessary to set up study centers as alternatives to the traditional Western centers of learning where Asian students had been going.

²¹ Roundtable on Japan and the Asia-Pacific Region in the 21st Century, unofficial translation of final report, December 25, 1992.

²² *Nikkei Weekly*, January 25, 1993.

²³ Kazuo Ogura, "'*Ajia no fukken' no tame ni*," *Chuo Koron*, July 1993; translated as "A Call for a New Concept of Asia," in *Japan Echo*, vol. 20, no. 3 (Autumn 1993), pp. 37-44

Ogura's views were representative of a growing belief in mainstream thought that Japan's international role in the post-Cold War era must be defined in terms of regional leadership and a stronger identification with Asia. Another example of this view is found in the writings of Yasusuke Murakami, a theoretician of the neo-conservative thought that underlay Nakasone's policy positions during his prime ministership. Murakami and Nakasone in fact coauthored a prescription for the post-Cold War order in 1992. Murakami believed that Western values were losing relevance to the future course of history. In a 1988 essay he went beyond the common view that the West was experiencing a relative weakening of its economic and political power: "The very ideals sustaining modern Western society are being shaken to their roots.... The fact is that the Western tradition of philosophy has long since reached a dead end." Murakami wrote that it was "the Japanese challenge, a development of global historical significance," that demonstrated the decline of the West:

Japan has probably outdone Western Europe and North America in the guarantee of liberties. Based on objective national indicators, Japan also achieved greater equality than almost any country in the West. Most important, the secret of Japan's success relates at least in part to non-Western organization principles. In this sense, Japan's achievements represent a severe blow to modern Western ideals. Furthermore, the same phenomenon is occurring in Hong Kong, Singapore, South Korea, and Taiwan; what we seem to be witnessing is not simply a Japanese challenge but an Asian challenge, a development that cannot but call into question the very basis of the Pax Americana.²⁴

The New Context of Defense Strategy

Yet even the strongest advocates of a closer identification with Asia affirmed the essential nature of the U.S. alliance and the continued U.S. presence in Asia. In fact, across the spectrum of Japanese opinion, there is now near unanimity in supporting the Mutual Security Treaty. When the Socialist Party joined in coalition with the LDP to form a government in June 1994, the new Socialist prime minister, Tomiichi Murayama, explicitly abandoned the fundamentals of his party's postwar foreign policy. For forty years the Socialists had opposed the Self-Defense Forces as unconstitutional; they had supported unarmed neutrality, opposed American military bases and the U.S.-Japan alliance, and opposed recognition of South Korea. They had opposed the PKO Cooperation Bill of 1992 which allowed the SDF to be dispatched abroad. Murayama, the first Socialist prime minister in nearly half a century, abruptly reversed the party's policies on all these issues. Initially opposition Diet members derided his volte-face, but Murayama plunged ahead with more reversals, sanctioning the flying of the Rising Sun flag in schools, the singing of the national anthem, cabinet ministers' visits to the Yasukuni Shrine, defense of the sea-lanes, close ties with South Korea, purchase of AWACs planes, and use of nuclear power for domestic energy needs. The Socialist Party in a subsequent meeting approved these changes. With this sudden opportunistic reversal the principal foreign policies of the Japanese left wing were swept away; the postwar left-right axis in foreign policy virtually disappeared.

With the collapse of the left-wing foreign policy position the resistance to constitutional revision was weakened. In November 1994 Japan's largest daily newspaper, the *Yomiuri Shimbun* with a circulation of over ten million, published a draft proposal for revising the constitution. The draft proposal came out of a two-and-a-half-year study led by Masamichi Inoki, a widely respected scholar of national defense issues. The draft proposed replacing Article Nine, the no-war clause, with a provision permitting "an organization for self-defense, to maintain the peace,

²⁴ Yasusuke Murakami, "Daigaku to iu na no shinsei kigeki," Chuo Koron, July 1988, translated as "The Debt Comes Due for Mass Higher Education," in *Japan Echo*, vol. 15, no. 3 (Autumn 1988), pp. 71D80.

independence, and security of Japan.”²⁵ At the same time, in order to reassure foreign concerns, it included the three nonnuclear principles and prohibited a military draft. A New York Times-CBS-Tokyo Broadcasting System poll in December 1994 found for the first time a majority of Japanese—53 percent—who said Japan should consider constitutional revision.²⁶

The cumulative changes in Japan’s foreign policy position since the end of the Cold War required a fundamental review of national defense strategy and the consolidation of a national consensus. In February 1994 then Prime Minister Morihiro Hosokawa appointed an advisory panel of bureaucrats, business leaders, and intellectuals to recommend revisions in what had been the nation’s Cold War defense strategy, the so-called National Defense Program Outline of 1976. The report of the advisory panel, issued on August 12, 1994, was characteristically cautious.²⁷ It strongly reaffirmed a defensive military posture and dependence on the security alliance with the United States. The report expressed readiness to do more to underwrite the American military bases in Japan. It called for further improvements in host-nation support and agreement to provide supplies (including fuel) and logistical service for U.S.-Japanese military exercises. Beyond the provisions recommended to make the alliance more reciprocal by increasing financial support, greater interoperability, and further steps to enhance joint military exercises, the most significant change the advisory panel recommended in the National Defense Program Outline was a more forward-looking stance on multilateral security activities. The report recommended revision of the Self-Defense Forces Law to provide for participation in UN peacekeeping activities as a primary duty. The activities would include monitoring of cease-fires, patrolling buffer zones, and other activities not presently permitted.

As it slowly moves away from the Yoshida strategy under the impetus of economic interests and the post Cold War environment, Japan is exploring the approaches of multilateralism in both economic and security fields. Multilateralism has many advantages for Japan. While bilateral relations with the United States remain critical both to the Japanese foreign policy position as well as to the domestic political structure, we have seen how relations with Asia have grown dramatically in importance since 1985. Japanese trade with Asia now exceeds trade with the United States. Japanese FDI in Asia is growing much more rapidly than Japanese FDI in North America. Nearly two-thirds of Japan’s massive ODA goes to Asia. Japan’s economic surge into Asia since 1985 requires more involvement in the region to protect its increased interests. Multilateralism provides some moving away and softening of the dominance of U.S.-Japan relations. While the historic legacy of the Pacific War is still not overcome, multilateralism provides a cover, a quiet approach to the region, one that will help to restore Japan’s legitimacy and claim to leadership. Engagement in multilateral organizations not only offers a way to respond to foreign suspicions as well as criticism of its self-absorption, but also a way of overcoming domestic resistance to a more active international role. Without question one of the reasons that Ozawa, Nakasone, and other Japanese advocates of a “normal country” seek a Japanese permanent seat on the UN Security Council is to wean a substantial portion of the Japanese population of its residual pacifism or what is really isolationism. The United Nation’s prestige has always been high with the old left wing of the political spectrum, and a UN Security Council seat would offer an avenue for increasing Japan’s international engagement.

For all of these reasons, Japan has begun probing and exploring opportunities in multilateral fora and other organizations. It has encouraged the creation of the ASEAN Regional Forum (ARF) and the Council for Security Cooperation in the Asia Pacific (CSCAP), but characteristically has reserved its greatest efforts for APEC. With its loose, deliberative, informal nature, its

²⁵ *Yomiuri Shimbun*, “A Proposal for the Revision of the Text of the Constitution of Japan,” Tokyo, November 3, 1994.

²⁶ *The New York Times*, December 30, 1994.

²⁷ Advisory Group on Defense Issues, *The Modality of the Security and Defense Capability of Japan: The Outlook for the 21st Century*, August 12, 1994.

concentration on economics, and its inclusion of the United States, APEC offers a multilateral organization with which the Japanese feel relatively comfortable. Japan has tried to position itself to serve as a bridge between Asia and the West. On the one hand, despite the urgings of many business leaders, Japan has resisted Malaysia's proposed East Asian Economic Caucus, which would exclude the United States, Australia, Canada, and other non-Asian states. A blue ribbon committee of the Japan Forum on International Relations, always reflective of the establishment's thinking, in a recent study stressed pursuit of a "constructive and open regionalism."²⁸ On the other hand, Tokyo has also resisted American efforts to move swiftly toward rules and regulations to establish trade and investment liberalization. Representing Asian apprehension that the United States will demand common rules of economic behavior, Japan has argued for respect of Asia's diversity and a gradualist approach—what the Japan Forum study called "organic economic integration guided by market mechanisms."

Driven by its economic interests but handicapped by its historic constraints, Japan is thus pursuing a cautious, low-key strategy in post-Cold War Asia. As Okazaki acknowledges, the legacy of the Yoshida strategy will be with Japan for some time: "If Japan had behaved in a conventional manner during the decades since the end of World War II, it could have undergone a smooth transition, taking its place in the world as a country with sufficiently good judgment to be trusted with normal military capabilities. But the opportunity to become a normal country has repeatedly eluded Japan." The Japan-U.S. alliance remains of the greatest consequence to Japan's future. Asia alone is no substitute. The policy of using East Asia as "a springboard" for economic expansion, which Okazaki advocates, cannot be pursued successfully "in the next 10 or 15 years" without the alliance. Asia alone is not sufficient to sustain Japan's growth for the foreseeable future. "Moreover, the ASEAN countries welcome Japanese expansion into the region as long as Tokyo maintains friendly relations with Washington." A rift with the United States would not only undermine Japan's Asian strategy: Okazaki acknowledges that he, in common with other Japanese elite strategists, believes that it would also result in domestic political upheaval. He therefore cautions against an "impetuous Asianism" or any harm to the health of the alliance: "It is vital not to damage the bedrock of the bilateral alliance, on which the fate of this nation rests."²⁹

The U.S.-Japan Alliance and the New Order

In the light of how essential the Japanese regard the alliance in their present transition period, the 1995 U.S. Department of Defense report entitled *United States Security Strategy for the East Asia-Pacific Region* was bound to be warmly welcomed in Japan. It changed the emphasis of a 1990 Pentagon report which had laid out a plan for phased cuts of American strength and for burden shifting to Asian allies. The 1990 report had created concern in Asia since it offered no institutional alternatives to the American security system which was to be downsized. In changed tones, the 1995 report asserted a resolve to maintain existing forward-based U.S. troop presence for the foreseeable future. Writing in *Foreign Affairs*, Assistant Secretary of Defense for International Security Affairs Joseph Nye, who supervised the report, saw no alternative to maintaining 100,000 U.S. troops in East Asia at least for the next decade. This presence, he said, was essential to maintain the basis for the region's prosperity and "ensures the United States a seat at the table on Asian issues." He offered no sense that this arrangement was a transition to a different future. APEC and ARF were described as "confidence-building measures" that would "complement American alliance leadership, not replace it."³⁰

²⁸ The Japan Forum on International Relations, *The Future of Regionalism and Japan*, Tokyo, June 1994.

²⁹ Okazaki, *op. cit.*

³⁰ Joseph S. Nye, Jr., "The Case for Deep Engagement," *Foreign Affairs*, July/August 1995, pp. 90D102.

Nye rejected the arguments of critics who said it was appropriate under post-Cold War circumstances to develop a new relationship with Japan. He gave little recognition to the anomalous nature of the U.S.-Japan relationship or to the new assertiveness and self-confidence that has arisen in recent years. The implication is that Japan will remain indefinitely in a security dependency role to the United States. Japan's substantial host-nation support was the only recognition Nye offered of the adjustment that was appropriate to reflect the massive change in relative economic strength that had taken place during the Cold War. The Nye report was received with relief in Tokyo where there was growing concern about China's military intentions. The outspoken Hisahiko Okazaki said what others were thinking: "Japan should cooperate with the U.S. to maintain the balance of power in the region against China. That is what Japan is expected to do by members of the Association of Southeast Asian Nations."³¹

Diehard Japanese adherents to the Yoshida strategy were elated by the Nye report. Former Prime Minister Miyazawa expressed his satisfaction in a remarkable interview:

The national security framework envisioned by Mr. Yoshida has not disappeared with the end of the Cold War, but now holds new meaning. I personally share the ideas presented in [the] Pentagon report . . . prepared by Joseph Nye. . . . We should allocate whatever is needed in terms of our host-nation support to secure the U.S. presence here. . . . Refraining from becoming a military power and applying restraints on the use of such power would better serve Japan's interest. Even if this country does decide to send troops overseas by revising the Constitution, who would want to go abroad? No one has the guts to rescue a woman being harassed by a drunkard on a commuter train. How can people like this hope to become a normal nation?³²

The implication of both the Nye report and the slow evolutionary approach to multilateralism embedded in the APEC and ARF organizations is that the United States will continue to provide the security for the region for the foreseeable future. How realistic is this approach? The U.S.-Japan alliance is key to answering this question. Given Japan's economic surge into Asia in the past decade and the role reversal that has taken place with the United States in terms of aid, trade, investment, and credit, the expectation that the American military can continue indefinitely to provide the security for this prosperous region may be unrealistic. It will be hard indeed to sustain congressional support for so peculiar an arrangement. The first security crisis that arises in Asia in which Americans are required to bear the responsibility could jeopardize this structure. The nature of Japan's economic penetration of Asia through reliance on keiretsu relationships is also likely to become a growing source of friction as the U.S. trade deficit with Asia grows. Increasingly, Congress will be inclined to link economic and security considerations. Even the Clinton Administration, despite its strong support of the present arrangement, has hinted at such linkage. For example, President Clinton, speaking at the APEC meeting in Seattle, November 19, 1993, said that "we do not intend to bear the cost of our military presence in Asia and the burdens of regional leadership only to be shut out of the benefits of growth that stability brings." Likewise, a strong implication of linkage between trade and security was evident in the recent Japan-U.S. auto parts dispute. Assistant Secretary of State Winston Lord told the *Straits Times* in Singapore that "over time, if the U.S. domestic perception is that the U.S. was being shut out of Asian markets, they might well begin to question the maintenance of forces in the region."³³

At a May 1995 Tokyo conference on the future of Asia, Asian leaders acknowledged the linkage of economics and security by arguing that the Americans must be rewarded with eco-

³¹ *Nikkei Weekly*, January 9, 1995, p. 1.

³² *Japan Times*, August 13, 1995, p. 21.

³³ Quoted in *The New York Times*, May 29, 1995.

conomic benefits for carrying the security burden of the region. Japan must open its markets, Lee Kuan Yew lectured the Japanese, or risk American military disengagement from the region: "If peace and stability, which Americans have helped maintain over the last 50 years, lead to an increasingly prosperous Japan, Korea, Taiwan . . . China, ASEAN, (and) Vietnam, but an increasingly less prosperous U.S., I don't see the U.S. Congress voting funds for the renewal of the Seventh Fleet and all the other things necessary to maintain the balance." Lee and other Asian leaders described the APEC process as more than an economic exercise to promote trade liberalization: it is a vehicle to anchor U.S. interests in the region to counter China's growing military and economic power and thus maintain "the stability that keeps East Asia's economic miracle going," as Jose Almonte, presidential security advisor in the Philippines put it. "APEC ensures a continuing presence in the region for the U.S.," Almonte concluded. C. Fred Bergsten, a U.S. member and chair of APEC's Eminent Persons Group, agreed that APEC should institutionalize a "high-level strategic trade-off whereby Asian countries engage the U.S. in economic terms to assure continued engagement in the area by the U.S. in security terms."³⁴ How viable is such a trade-off which implies economic benefits in return for containment of China? In a high profile op-ed article in the *The New York Times*, April, 18, 1995, Michael Lind, a senior editor at Harper's, asked "why should U.S. troops serve indefinitely as the security guards of a latter-day Greater East Asian Co-Prosperity Sphere from which many American products are effectively excluded?" Lind argues for "treating Japan as an equal, not a dependent," ending the security treaty, and maintaining an economic and military balance between Japan and China.

Similarly, Henry Kissinger, in the conclusion of his book *Diplomacy*, argues for greater realism in American foreign policy. He observes Asian coolness to Clinton's proposals for transforming APEC into a more institutionalized Pacific Community on the European model, and argues for a classic balance-of-power approach:

The relations of the principal Asian nations to each other bear most of the attributes of the European balance-of-power system of the nineteenth century. Any significant increase in strength by one of them is almost certain to evoke an offsetting maneuver by the others. The wild card is the attitude of the United States, which has the capacity—though not necessarily the philosophy—to function in much the same way that Great Britain did in maintaining the European balance of power until the two world wars of the twentieth century. The stability of the Asia-Pacific region, the underpinning of its vaunted prosperity, is not a law of nature but the consequence of an equilibrium which will need increasingly careful and deliberate tending in the post-Cold War world.³⁵

Conclusion

APEC can develop only in a stable security environment, and this depends upon a clarification and revitalization of the U.S.-Japan alliance based on the new realities of the last decade. These realities are the growth of Japan's economic power, its influence in Asia, and its self-assertiveness. Furthermore, the end of the Cold War has cut Japan loose from both its post-World War II domestic political and foreign policy moorings. A paradigm shift in the Japanese political system is under way, and Japan's leadership recognizes that the Yoshida strategy is no longer viable. In light of historic constraints, Japan is exploring an array of possibilities including constitutional revision, participation in collective security arrangements, a permanent UN Security Council seat, and closer ties with Asia.

If there should be a breakup of the U.S.-Japan alliance or if there is simply a weak or deteriorating bilateral relation, the region will be subject to uncertainty and instability and will

³⁴ *Nikkei Weekly*, May 22, 1995, p. 1.

³⁵ Henry Kissinger, *Diplomacy*, New York: Simon and Schuster, 1994, p. 826.

be governed by more classic balance-of-power dynamics. A restructuring of the alliance based on the new realities is essential. For the first time in its modern history Japan has become a status quo country, with enormous dependence on stability in the international system. In the abstract, the United States and Japan have parallel geopolitical interests. Revitalizing the alliance, however, faces many obstacles. First of all, there must be a harmonization of economic institutions so that the rules of the game in trade and competition are acceptable to both countries. Secondly, there must be closer cooperation on official aid projects. Third, a reciprocal alliance should entail sharing of dual-use technology. Fourth, a revitalized alliance must be predicated on Japan's playing an appropriate role in collective security. In a 1993 article entitled "Coping with Japan," Nye wrote that as a matter of strategy the United States should try to keep Japan in a special category of nation-state which he called a "global civilian power."³⁶ For the next several years, Japan would be happy to accept such a role. In the longer term, it is not realistic to expect that the continued operation of American bases on Japanese soil in their present form and status will be acceptable to a Japan inclined to return to orthodox nationhood. Nor is it realistic to perpetuate indefinitely a situation in which the United States alone is responsible for security and stability in the Asia-Pacific region.

A stable new order in East Asia must be governed by a set of generally accepted rules and institutions. APEC offers a beginning of a process that may lead to a partial framework of such rules and institutions. A new order must also be reflective of the relative strength of the major powers in the region. Because of its historic constraints and its present political flux, Japan has thus far not exercised political responsibilities commensurate with its economic strength. A stable post-Cold War framework requires that it make its long-delayed transition to a normal country with greater balance in its political responsibilities and economic capabilities. In the long run, the APEC process can thrive only in the context of a new Japan-U.S. relationship.

³⁶ Joseph S. Nye, Jr., "Coping with Japan," *Foreign Policy*, Winter 1992-93.