

Japan's Search for the 'Sweet Spot': International Cooperation and Regional Security in Northeast Asia

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Abstract: To analyze how Japan's competing objectives and specific policies have been evolving and how they trade off in today's regional security situation, this article argues that shifting Japanese foreign and security policies in Northeast Asia can be understood as ongoing responses to tensions along three key axes. First Japan confronts a tension between bilateralism and multilateralism; second Japan's economic and security interests are often at odds, and third, Japan still struggles with the competing pulls exerted by Asia on the one hand and the West (most particularly the United States) on the other.

The article begins by establishing a historical baseline that outlines the high levels of internal consistency and harmony that Japan's policies and institutional approaches presented along three critical axes during the Cold War. During that period, Japan's mixture of multilateralism, bilateralism; economics and security; and Asia and the United States were preponderantly compatible; in the sports metaphor, Japanese foreign policies were operating in the "sweet spot." Since the end of the Cold War, however, the three axes have been marked by far more tensions among the competing pulls. Current policies reflect the efforts of successive Japanese governments to once again find a geographical, functional, and institutional equilibrium that will resolve these tensions in ways that will contribute to Japanese foreign policy successes.

Japan is poised to play a pivotal role in the evolving relationship between international cooperation and regional security in Northeast Asia. On the one hand, Japan distinctly sees its major security challenges as coming from the Asian region. And as the regional security architecture across East Asia has become far more complex and increasingly institutionalized, Japan has been a prominent advocate for many of these new processes. It was, for example, a major driver behind the formation of the Asia-Pacific Economic Cooperation forum (APEC), the ASEAN Regional Forum (ARF),¹ most of the financial activities of the ASEAN Plus Three (APT), as well as in the creation of the East Asia Summit (EAS).² Furthermore, starting in 2008, Japan led the way in initiating regularized summits among the top leaders from China, Japan and Korea, meetings designed to address a range of issues that included hard security.³ Perhaps most importantly, Japan pressed for and eagerly joined, the Six Party Talks (SPT) initiated as a multilateral process to facilitate the denuclearization of the Korean Peninsula. More recently, under former Prime Minister Hatoyama, Japan pressed for regional institutionalization with the creation of a somewhat amorphously defined “East Asia Community.”

Such Japanese support for engaging Asia multilaterally builds on the country’s longstanding efforts to participate in global institutions. In the aftermath of World War II, this meant joining such global bodies as the United Nations, the International Monetary Fund and the World Bank. More recently, the multilateral impulse has been manifested in Japan’s ardent support for, among other arrangements, the Kyoto Protocol, the International Criminal Court, the cultural diversity treaty built around UNESCO, and the International Agreement to Ban Anti-Personnel Landmines, many of which have explicit hard security implications.⁴

At the same time, Japan has demonstrated a strong reliance on its close bilateral ties to the United States which has been the cornerstone of its foreign policy throughout the postwar period. And with its complex security situation, it has also shown ambivalence—less about joining but more about deferring to—a number of multilateral bodies. Thus, in the Six Party Talks throughout

¹ Ashizawa, 2004.

² William W. Grimes, *Currency and Contest in East Asia: The Great Power Politics of Financial Regionalism* (Ithaca: Cornell University Press, 2009); T. J. Pempel, *Remapping East Asia: The Construction of a Region* (Ithaca: Cornell University Press, 2005).

³ Keisuke Iida, “Summit Diplomacy in Northeast Asia: A Magic Formula for a ‘Spill-over’ from Economics to Security?” paper presented at the MacArthur conference on “The Economic-Security Nexus,” Tokyo, 2008; T. J. Pempel, “Soft Balancing, Hedging, and Institutional Darwinism: The Economic-Security Nexus and East Asian Regionalism,” *Journal of East Asian Studies* 10.2 (2010), pp. 209–238.

⁴ T. J. Pempel, “Japan and the Two Koreas: The Foreign Policy Power of Domestic Politics,” in Marie Soderberg ed., *Changing Power Relations in Northeast Asia: Implications for Japan-South Korea Relations* (London: Routledge, 2011), ch. 4.

much of the period from 2005 to 2008, Japan sought primarily to coordinate its position with that of the United States. Yet, toward the last resolution reached in 2008, it abjured both bilateral and multilateral relations by continuing to insist—in sharp disagreement with the priorities given by China, the United States, the Republic of Korea (ROK) and Russia to DPRK denuclearization—that a North Korean accounting for allegedly missing Japanese abductees had to be a precondition for any resolution of its relations with the DPRK. In September, 2010, a Chinese fishing trawler entered waters in the East China Sea claimed by Japan (with competing claims from both China and Taiwan). The Chinese captain rammed a Japanese Coast Guard cutter after which he and his crew were taken into custody. The captain was arrested under Japanese law and threatened with prosecution but was then suddenly released in the face of diplomatic and economic pressures from China. Japan never turned to any regional or multilateral body for help in resolving this clash. But it quickly mustered support from the United States which declared that the U.S.-Japan Security Treaty covered the Senkaku, much to the delight of Japan and the frustration of China. When in November, 2010, North Korea shelled Yeonpyeong Island killing at least four people, Japan called for United Nations sanctions but also moved to strengthen defense and security ties with both the United States and the ROK.

Clearly, Japan's overall relationship with Asian regionalism and regional security regimes remains ambiguous. How then, if at all, is one to make analytic sense of this relationship? That a complex country, such as Japan, might display contradictions in dimensions of its policies should occasion no surprise. Multilateralism allows the country to engage putative adversaries while simultaneously hedging against potential threats. Moreover, functional logics that may spawn increased enthusiasm for multilateralism in one policy sphere (e.g. foreign aid or trade) but not automatically translate into multilateralism elsewhere (e.g. alliance policies or military security). Equally important, the more forums through which a country can pursue its policy goals, the greater its tactical options, even if deeply institutionalized regional bodies can simultaneously exert limitations on national policy options. But multilateral membership by no means precludes deeply-held convictions of national self-interest.

Japan's Cold War Pattern: The Synchronistic 'Sweet Spot'

Reversing its international isolation in the years before World War II, Japan, as noted above, became an active petitioner for multilateral membership in virtually all Western postwar multilateral institutions, including the United Nations, GATT, the IMF, the World Bank, the WHO, and a host of other bodies. With admission, Japan sought to demonstrate that it had broken with its expansionist past and could be counted on to be a good global citizen

adhering closely to multilateral norms. Indeed, from the time of its admission to the United Nations in 1956, Japan's Ministry of Foreign Affairs has rather consistently declared "U.N. compatibility" to be one of the central pillars in the nation's foreign policy.

Such Japanese multilateralism dovetailed with its bilateral bonding with the United States, the principal architect and promoter of what Ikenberry and Mastanduno⁵ have labeled the "dense set of international and intergovernmental institutions" through which America advanced its postwar foreign policies and its Cold War strategies. At this point in time, Japan's multilateral participation was a logical extension of its bilateral alliance with the United States; multilateralism facilitated bilateral solidarity with its military and economic benefactor.

The multilateral instinct was slower to take root in East Asia more generally. Most other Asian countries were just emerging from various layers of colonial rule leaving them more concentrated on creating internal national cohesion than on advancing any broad gauged regional institutionalism.⁶ Simultaneously, U.S. defense policy was predicated on a series of bilateral links with several Asian partners (the so-called hub and spoke system) so that until the late 1990s, Asia experienced little of the institutional regionalism that blossomed in Europe in the form of NATO and the European Coal and Steel Community.⁷

Until the end of the Cold War, Japan's Yoshida Doctrine (Kosaka, 1968; Pyle, 1992)⁸ kept the country focused on succeeding as a 'merchant nation' (shānin kokka), albeit a mercantilism deeply structured by realism.⁸ Japan took advantage of favorable access to the U.S. market for its exports while simultaneously serving as, what one Japanese prime minister called, "America's unsinkable aircraft carrier in the Pacific." The end result was a combination of global multilateralism, a U.S.-oriented military bilateralism and an embedded mercantilism that resulted in a cohesive and reinforcing Japanese foreign policy profile.⁹

⁵ John G. Ikenberry and Michael Mastanduno, *International Relations Theory and the Asia-Pacific* (New York: Columbia University Press, 2003), p. 7.

⁶ Kent Calder and Min Ye *The Making of Northeast Asia* (Princeton: Princeton University Press, 2010), pp. 57–80; Pempel, *Remapping East Asia*.

⁷ Christopher Hemmer and Peter J. Katzenstein, "Why is there no NATO in Asia?" *International Organization* 56.3 (2002), pp. 575–607; and Peter J. Katzenstein, *A World of Regions: Asia and Europe in the American Imperium* (Ithaca: Cornell University Press, 2005).

⁸ Masataka Kosaka, *Saishō Yoshida Shigeru* [Prime Minister Yoshida Shigeru] (Tokyo: Chūō Kōronsha, 1968); Kenneth B. Pyle, *Japan Rising: The Resurgence of Japanese Power and Purpose* (New York: Century Foundation, 2007); Eric Heginbotham and Richard J. Samuels, "Mercantile Realism and Japanese Foreign Policy," *International Security* 22. 4 (1998), pp. 171–203.

⁹ Ellis S. Krauss and T. J. Pempel, eds., *Beyond Bilateralism: The US-Japan Relationship in the New Asia-Pacific* (Stanford: Stanford University Press, 2004).

Perennially apprehensive that the United States was overestimating the communist security threats in East Asia, and consequently relying overly much on its military prowess to shape its foreign policies in the region, Japanese leaders were constantly alert to the dangers of entrapment in U.S. military adventures.¹⁰ Reflecting a more nuanced and less militarized view of security, Japan, starting in 1979, began officially to identify and pursue its more inclusive goal of “comprehensive security,” a policy mix that sought to complement traditional concerns for military protection of Japan’s national borders with attention to ensuring food, energy, technology, and economic security, among others.

Japan’s links to the rest of Asia during the first four decades after World War II grew logically out of this basic framework. Government to government ties from Japan to its neighbors were primarily bilateral and largely in the form of reconstructed diplomatic relations and official foreign aid. Thus, Japan normalized its diplomatic relations with the ROK in 1968 and with China in 1972—even though toxic war memories continued to cloud these emerging relations. Foreign aid and foreign direct investment complemented governmental normalization efforts. Roughly 70 percent of Japan’s foreign aid went to Asia, with a principal focus on infrastructure development. Initially targeted at Korea and Taiwan, this aid later shifted to China and Southeast Asia as the first two graduated to higher levels of development. By the mid-1980s, Japanese aid constituted roughly forty percent of the total foreign aid to China, and between 50 and 70 percent of the aid received by the Philippines, Malaysia and Thailand.

Meanwhile, complementing such official governmental ties, Japan’s ever-growing private economic ties expanded in response primarily to market forces and corporate self-interest.¹¹ These developed originally with the anti-communist regimes of the region (particularly South Korea and Taiwan) but eventually spread to virtually all countries in the area. In particular, the huge increases in the value of the Japanese yen following the 1971 collapse of the Bretton Woods system and the Plaza Accord in 1985 spurred private Japanese corporations to invest heavily across East Asia in the regionalization and globalization of their production facilities.

By the early 1990s, Japan’s powerful economic presence straddled the region like a colossus, weaving together production networks that spanned

¹⁰ Yasuhiro Izumikawa, “Explaining Japanese Antimilitarism: Normative and Realist Constraints on Japan’s Security Policy,” *International Security* 35.2 (2010), pp. 123–160; Richard J. Samuels, “Constitutional Revision in Japan: The Future of Article 9,” talk given at the Brookings Institution, Dec. 15, 2004.

¹¹ Walter Hatch and Kozo Yamamura, *Asia in Japan’s Embrace: Building a Regional Production Alliance* (Cambridge: Cambridge University Press, 1996); and T. J. Pempel, “Trans-pacific Torii: Japan and the Emerging Asian Regionalism,” in Peter J. Katzenstein and Takashi Shiraishi, eds., *Network Power: Japan and Asia* (Ithaca: Cornell University Press, 1997), pp. 47–82.

national borders and knitted together webs of region wide economic interdependence.¹² In the process the Asian region exploded with its now famous levels of exceptional economic growth.

Japan's blend of close U.S. ties, generic multilateralism and regional economic ties resonated well with domestic Japanese political conditions. Constrained at home by an ambiguously pacifist constitution and a public skeptical of military and territorial expansion, the conservative leadership's focus on economic revitalization generated improved Japanese ties with its Asian neighbors while defusing domestic political opposition. With fits and starts, by the early 1980s, earlier taboos had begun to erode and, Japanese public opinion had come to tolerate and eventually to offer positive support for the overall U.S.-Japan security relationship.¹⁰ Yet in the meantime, Japanese policy enjoyed a synchronistic blend of U.S. bilateralism, Asian regionalism and a definition of "security" that allowed it to skirt most direct military activities.

This fortuitous combination thus afforded Japanese leaders the ability to pursue a mixture of domestic politics and foreign policy that required few hard choices from within the mix of multilateralism and bilateralism, economics and security, or Asia and the United States. In the process, the ruling conservatives remained strong domestically, continually outflanking their opponents. The height of this positive mixture probably was reached in the late 1980s and early 1990s, as the Cold War ended and Japan's position in Asia seemed paramount. Hindsight, of course, makes it clear that the peak of Japan's apparent economic muscularity was, in fact, the top of an exaggerated asset bubble, but before that bubble burst, Japan enjoyed tremendous economic success at home and a preponderant leadership position across Asia.

This happy equilibrium was upended as the consequence of changes in at least three critical areas. First, the bursting of Japan's economic bubble left the Japanese foreign tool box bereft of its previously most valuable tool. Second, following the Asian financial crisis of 1997–98, an economically defensive East Asia expanded its previously commercial, financial and trade links to weave together more formally institutionalized bodies and enhanced governmental oversight of regional economic ties. Third, Japan's external security environment changed, initially with the implosion of the Soviet Union and its Eastern European allies thus bringing into question the underlying justification for the bilateral alliance with the United States, but subsequently

¹² Mitchell Bernard, "Post-Fordism, Transnational Production, and the Changing Global Political Economy," in Richard Stubbs and Geoffrey R.D. Underhill, eds., *Political Economy and the Changing Global Order* (London, MacMillan, 1994), pp. 216–229; idem and John Ravenhill, "Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy, and the Industrialization of East Asia," *World Politics* 47.2 (1995), pp. 171–209; Hatch and Yamamura, *Asia in Japan's Embrace*; Walter Hatch, *Asia's Flying Geese: How Regionalization Shapes Japan* (Ithaca: Cornell University Press, 2010); Pempel, "Transpacific Torii"; and idem *Remapping East Asia*.

by the early 2000s, with China and the DPRK gaining increased salience as potential security challenges to Japan.

The cumulative effect of these three changes was to push Japan's approach to international cooperation and regional security in two fundamentally new and competing directions. On the one hand, Japan became more closely engaged with Asia through regional economic institutions. But secondly, Japan's hard military security ties to the United States became tighter and military security took on a heightened priority in comparison to other aspects of Japan's "comprehensive security." The result has been to leave contemporary Japan in a position of tension and uncertain oscillation between bilateralism and multilateralism, between economics and security and between Asia and the United States.¹³

The Bursting of Japan's Asset Bubble

The grim story of Japanese domestic political economy since 1990 is now quite familiar. The previously awe inspiring economic machine that for 35 years delivered GDP growth double that of the OECD average collapsed with the bursting of the 1985–1990 asset bubble. For the subsequent 20 years, Japan's economy was locked in a spiral of debt, deflation and declining productivity. In the process per capita gross domestic product declined from third highest in the world in 1991 to eighteenth in 2008. Household income fell from its peak in 1994 to a 19-year low of 5.56 million yen, or about \$58,000, in 2007.¹⁴ By 2009, nominal GDP was barely above its 1991 levels while Japan's share of world GDP—that had risen so parabolically from roughly seven percent in 1970 to ten percent in 1980 and nearly 18 percent in the early 1990s (an increase of roughly 250 percent)—had fallen back to eight percent in 2010. In other words, in the 20 years from 1990 to 2010 Japan surrendered virtually all of the relative global economic gains it had so spectacularly achieved in the two decades prior.

As was noted above, for most of the postwar era, Japan's approach to foreign policy rested heavily on its ever-expanding economic muscle. Political and business leaders from a host of countries in developing Asia once looked to Japan as the logical model for emulation as they pursued their own economic strategies.¹⁵ Meanwhile, Japanese foreign assistance, trade, production

¹³T. J. Pempel, *Regime Shift: Comparative Dynamics of the Japanese Political Economy* (Ithaca: Cornell University Press, 1998); idem, "The Race To Connect East Asia: An Unending Steeplechase," *Asian Economic Policy Review* 2 (2006), pp. 239–252; Michael J. Green, *Japan's Reluctant Realism: Foreign Policy Challenges in an Era of Uncertain Power* (New York: Palgrave, 2002); and Pyle, *Japan Rising*, inter alia.

¹⁴Martin Fackler, "Economy Spells Trouble for Leading Party in Japan," *New York Times*, July 18, 2009.

¹⁵Meredith Woo-Cumings, ed., *The Developmental State* (Ithaca: Cornell University Press, 1999), inter alia.

networks and bank loans became increasingly pivotal in advancing the economic fortunes of many Asian countries. The combination had reinforced Japan's position as the undisputed leader of Asia's region wide development, a model widely touted in Japan as the "flying geese model".¹⁶

Japan's previously unchallenged economic leadership in the region was challenged by the subsequent successes of other Asian countries including South Korea, Taiwan, Thailand, Malaysia and, eventually and most significantly, China. Japan's relative inability to stymie the pandemic Asian economic crisis of 1997–1998, discussed below, further undercut its own national confidence, as well as that of many of its neighbors, in Japan's ability to rely on its economic powers to shape regional events. Not surprisingly, the economic resources and the psychological and soft power appeals that Japan had brandished at its economic peak shriveled as a result.

Particularly galling for many Japanese and broadly significant for security relations, Japan's economic decline was paralleled by the dramatic rise in China's GDP and its enhanced economic influence globally and regionally. Even though Japan remains absolutely the most economically sophisticated and industrially advanced country in Asia, its position at the unchallenged center of regional economic developments was no longer automatic.¹⁷ This economic slowdown has combined with external changes to drive Japan in two rather separate directions—greater economic engagement with an emerging Asian regionalism on the one hand, and greater reliance on its military ties to the United States and reluctance to embrace security multilateralism on the other.

Japan and the Deepening Economic Regionalism

As was noted above, from the 1970s to the present Asia saw a collective deepening of trade and investment links. Corporate and business plan logic initially drove the bulk of this activity but as former Singaporean President Lee Kwan Yew (2007) has effectively argued, Asia's economic miracle also owed a great deal, not just to dynamic corporations, but also to the easing of conventional national security tensions. The U.S. defeat in Vietnam allowed countries across the region to explore paradigms of economic growth, based neither on Chinese or Soviet communism nor on U.S. laissez faire market

¹⁶ Hatch, *Asia's Flying Geese*.

¹⁷ It should be noted that Prime Minister Koizumi whose term ran from 2001–2006 moved to eradicate some of the worst impediments to Japan's economic revitalization, including cleaning up the non-performing loan problem; reducing spending for traditional pork barrel projects in construction, highways and agriculture; and eliminating some of the least efficient of Japan's public corporations, most significantly including a privatization of the Postal System. But Koizumi failed to institutionalize his economic reforms while two of his successors, Abe Shinzō and Aso Taro both sought to reverse many of his moves resulting in little improvement in the stagnating economy. Andrew MacIntyre and Barry Naughton, "The Decline of a Japan-Led Model of the East Asian Economy," in Pempel, *Remapping East Asia*, pp. 77–100.

stratagems. Instead a progressive sequence of “developmentalisms” cascaded across Asia, generating progressive economic successes in ever more countries (with the conspicuous exceptions of North Korea and Burma) offering the remainder increasing reason to enhance the priority given to legitimating their regimes through economic success rather than territorial or military conquest.¹⁸ Clearly the most important convert to this re-prioritization was the People’s Republic of China. Balance-of-power defense and security politics hardly disappeared from East Asia but they were complemented by the promise that China and other countries might plug into and benefit from what was increasingly becoming a region wide economic miracle.¹⁹

The security implications of Asia’s pervasive embrace of economic growth is well captured by Overholt’s crisp formulation: “For centuries, the principal route to wealth and power had been conquest of neighboring territory. Wealth came from seizing neighbors’ golden temples and taxing their peasants. The dawn of the Asian miracle transformed this ancient reality. Now wealth and power accrued to whoever grew the faster by reforming the domestic economy. Conversely, the arrival of modern military technology put the quest for power through war at risk of achieving Pyrrhic victories.”²⁰

Asian nations, in the process of pursuing national strategies of economic development, were pulled into closer ties with one another though their ever deepening commercial linkages. Increases in cross-border production enhanced intra-Asian trade and deepened East Asian interdependence. Between 1986 and 1992, for example, the intra-regional share of exports from Asian countries expanded from 31 percent to 43 percent.²¹ By 2010, that same intra-Asian trade had risen to fully 56 percent of Asia’s total trade, a figure close to that of the European Union. In the process, the reliance of most Asian exporters (except for China) on the U.S. market began to shrink and Asian countries sharpened their focus on their relations with one another.

The regionalization and internationalization of Asian manufacturing became most dramatically telegraphed in Japan’s case, when in 1995 Japanese-owned companies were manufacturing more overseas (¥41.2 trillion) than they exported from the home islands (¥39.6 trillion).²²

As Fig. 1 makes clear, Japan’s economy unsurprisingly has become increasingly dependent on Asian markets, largely at the expense of its earlier dependence on the United States. That Japan would give enhanced attention to East Asia has been a logical consequence.

¹⁸ Ellen L. Frost, *Asia’s New Regionalism* (Boulder: Lynne Rienner, 2008); William H. Overholt, *Asia, America, and the Transformation of Geopolitics* (Cambridge: Cambridge University Press, 2008); Pempel *Regime Shift*; ; Woo-Cumings, *Developmental State*.

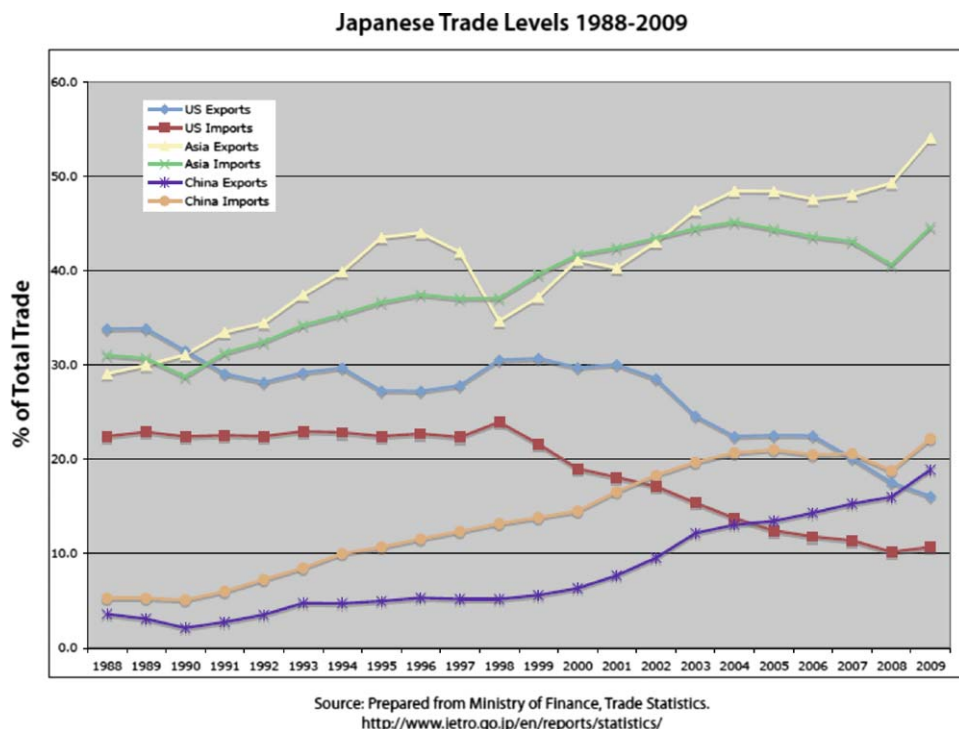
¹⁹ David Zweig, *Internationalizing China: Domestic Interests and Global Linkages* (Ithaca: Cornell University Press, 2002).

²⁰ Overholt, *Asia, America*, pp. 18–19.

²¹ Pempel, *Remapping East Asia*, pp. 54, 66.

²² *Far Eastern Economic Review*, July 4, 1996; Pempel, “Transpacific Torii,” pp. 59–61.

Fig. 1.



These increased commercial ties across East Asia had little formal top-down institutional manifestation until Japan, along with Australia, moved to institutionalize them in ways that would reinforce the U.S. commitment to Asia with the formation of the Asia-Pacific Economic Cooperation (APEC) forum designed to bridge the Asia-Pacific and to advance economic liberalization, trade facilitation, and economic development and technical cooperation throughout the region. APEC's first meeting was held in Canberra in November 1989—just days before the Berlin Wall came down.²³ For much of the 1990s—largely until the crisis of 1997–1998—both the U.S. and Japanese governments collaborated actively with the other APEC member economies in laying the groundwork for a variety of policies designed to enhance regional economic cooperation.

The financial crisis of 1997–1998 saw Japan's connections to Asia moving in two contradictory directions. On the one hand, and in keeping with Japan's overall economic slowdown, the crisis saw a massive withdrawal of Japanese investment from Asia and a diminished financial presence. From about \$275 billion in outstanding loans to the region in 1997, Japanese banks cut their regional loans to \$101.5 billion in mid-2001. Asia currently accounts

²³ Green, *Japan's Reluctant Realism*, pp. 208–211. Ashizawa, 2004, pp. 250–51.

for 10.5 percent of total international lending by Japanese banks, compared to about 25 percent before the crisis. Beyond this reduced Japanese lending to Asia, the share of Japan's outward capital flows directed to Asia has also declined markedly.

Yet at the same time, Japan, at the onset of the crisis, was the first country to offer remedial action with its proposal to create an Asian Monetary Fund (AMF). The proposal was for the region's richer countries to provide \$100 billion in needed liquidity to the crisis-affected countries. Japan's proposal was quickly shot down by the United States and the International Monetary Fund (IMF) as well as by China. Yet the crisis and the harsh terms of IMF "conditionalities" spurred a widespread conviction across much of Asia that regional financial institutions were needed to utilize better Asia's collective financial power and to prevent any repeat of the devastating vulnerability on the IMF and the worst effects of globalized finance.

The most striking regional response came with the Chiang Mai Initiative (CMI) of May 6, 2000. Many considered this arrangement as the next best thing to Japan's proposal for an Asian Monetary Fund. CMI arose from a Japanese proposal to create an extensive network of currency swaps among the ASEAN countries along with China, Japan and the ROK. Japan, in Amyx's words "played the role of arbitrator as countries in the region negotiated the general terms for the swap arrangements."²⁴

Following its formation, CMI expanded its capitalization as well as its institutional cohesion. Total funding rose from \$39 billion to \$120 billion. And in 2010, the CMI began to transform itself from a network of bilateral swaps into a fully multinationalized fund from which creditors could request a single relief payment. Of special interest, China, Korea and Japan—the three largest potential contributors—were able to agree on a formula that muffled their potential rivalries. Japan's financial stake amounts to 32 percent of the total while the contribution of China plus Hong Kong also equals 32 percent. Thus, Japan can claim to be the "largest single contributor," while at the same time the PRC (including Hong Kong) can claim to be the "largest co-equal contributors."

CMI has also initiated a regional surveillance mechanism called the Economic Review and Policy Dialogue, while in conjunction with CMI, China, Japan and Korea have provided technical assistance and training for the monitoring of capital flows among some of East Asia's less advanced financial systems.²⁵

²⁴ Jennifer Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia" in Krauss and Pempel, eds., *Beyond Bilateralism*, pp. 198–220; Pempel, "Race to Connect."

²⁵ Natasha Hamilton-Hart, Financial Cooperation and Domestic Political Economy in East Asia," in Melissa G. Curley and Nicholas Thomas, eds., *Advancing East Asia Regionalism* (London and New York: Routledge, 2008), p. 120; Randal C. Henning, "The Future of the Chiang Mai Initiative: An Asian Monetary Fund?" Peterson Institute for International Economics, *Policy Brief* (PB 09-5), Feb. 2009, p. 3.

Current arrangements still remain a long way from making CMIM Asian countries' first resort in the event of a currency crisis; nor has CMIM seriously challenged the primacy and conditionality of the IMF. However, the process demonstrates an increasingly cooperative Asian institutionalization of financial ties that inject governments and politics into a previously market-driven relationship.²⁶

The more advanced economies in Asia also have begun to develop Asian bond markets that seek to provide an additional mechanism of regional linkage while offering enhanced financial stability that would reduce Asian dependence on the U.S. dollar for financial reserves, currency baskets, and international transactions. Japan's Ministry of Finance and the Japan Bank for International Cooperation (JBIC) have been in the forefront of efforts to reduce impediments to its functioning in an effort to allow smooth and rapid issuance of local currency bonds.²⁷

Regional economic ties have also been bolstered through a rapidly expanding network of bilateral and minilateral free trade agreements.²⁸ These bypass the failing global WTO process and the stalled Doha Round of trade negotiations, again putting governments and formalization into the foreground of what were once largely private company-driven commercial ties.

Current measures hardly counter global money markets and the IMF, but they are institutionally somewhat detached from both. Moreover, they offer the promise of longer term balancing against global U.S. financial heft. As Katada²⁹ has suggested, Japan, with its regional financial efforts, is pursuing a "counterweight strategy," challenging— and attempting to modify— the dominant U.S.-led international financial system. The new bodies will not necessarily become *alternatives* to the current system, but they provide at least an additional forum in which Japanese influence will be greater and one through which it can pursue its goals, giving it both a counterweight to the United States, as well as an opportunity to "forum shop."

Japan's Changing Security Relations

Cold War logic kept the United States firmly in Asia and tightly bound to Japan. The end of global bipolarity brought into question the military

²⁶ Grimes, *Currency and Contest*.

²⁷ T. J. Pempel, "Japanese Policy Under Koizumi," in Gilbert Rozman, ed., *Strategic Thinking in Japan* (London: Routledge, 2007), pp. 109–33.

²⁸ C. M. Dent, "Networking the Region? The Emergence and Impact of Asia-Pacific Bilateral Trade Agreement Projects," *Pacific Review* 16.1 (2003), pp. 1–28; John Ravenhill, "Trading Out of Crisis," in Andrew MacIntyre, T.J. Pempel, and John Ravenhill, eds., *Crisis as Catalyst: Asia's Dynamic Political Economy* (Ithaca: Cornell University Press, 2008), pp. 140–163.

²⁹ Saori Katada, "Japan's Counterweight Strategy: US-Japan Cooperation and Competition in International Finance," in Krauss and Pempel, eds., *Beyond Bilateralism*, p. 178.

justification for U.S. bases in Japan. Consequently, many Japanese policymakers feared that the United States might become less committed to a firm presence in the Asia-Pacific and to the bilateral U.S.-Japan relationship. Longstanding fears of entrapment during the Cold War gave way to worries about abandonment. During the mid-1990s, security planners in the two countries worked to shore up and expand their bilateral defense ties through the Nye Initiative, the Higuchi Report, Japan's 1995 National Defense Policy Outline, and the revised Guidelines for Japan-U.S. Defense Cooperation issued in September 1997.³⁰ All served to renew and expand Japanese commitments under the bilateral Security Treaty.

Meanwhile, Japan's long dominant Liberal Democratic Party (LDP) split in 1993, and when it returned to government nine months later, it proved to be more conspicuously dominated by a harder line nationalist contingent that eclipsed the previously dominant party "pragmatists" and adherents of the longstanding Yoshida line, with its predominantly economic focus and limited foreign policy role. As Samuels phrased it "The consolidation of party power behind revisionist leadership [. . .] worked to marginalize pragmatists and unify the LDP around revisionist goals to [a] heretofore unprecedented degree."³¹

Japan's relations with the United States took on a conspicuous military tone, deepening with the Bush administration's rejection of earlier American multilateralism and the embrace of its "with us or against us" mindset and its prioritization of military force as its main foreign policy tool.³² "Coalitions of the willing" became the operative watchword. Following 9/11, Prime Minister Junichiro Koizumi (2001–2005) demonstrated Japan's "willingness," if not eagerness, by wrenching Japan away from the country's earlier phobias about military activities. He tightened Japanese endorsements of the Bush administration's new policies, a shift welcomed by many in the defense establishments in both countries. Among other breaks with the past, Koizumi's administration dispatched Japanese military forces to Afghanistan and Iraq; signed on to the ballistic missile defense system; became a charter member of the Proliferation Security Initiative; expanded Japan's military uses of outer space; allowed for the first time the hosting of a U.S. nuclear aircraft carrier at Yokosuka; raised the status of Japan's Defense Agency to that of a ministry; enhanced interoperability with U.S. military forces in Asia; developed new forces to deal with guerilla operations; and implicitly enlarged the scope of the U.S.-Japan Security Treaty to include territories as far south as Taiwan.³³ And

³⁰ Izumikawa, "Explaining Japanese Antimilitarism"; Christopher W. Hughes, *Japan's Security Agenda: Military, Economic, and Environmental Dimensions* (Boulder: Lynne Rienner, 2004); Pyle, *Japan Rising*; Samuels, "Constitutional Revision in Japan."

³¹ Samuels, 2004.

³² T. J. Pempel, "How Bush Bungled Asia: Militarism, Economic Indifference and Unilateralism Have Weakened the United States Across Asia," *The Pacific Review* 21.5 (Dec. 2008), pp. 547–81.

³³ Christopher W. Hughes, *Japan's Remilitarization* (New York and London: Routledge, 2009); T. J. Pempel, "Japanese Policy Under Koizumi," pp. 120–125, *inter alia*.

importantly in Japan's articulation of official threat perceptions, new military guidelines produced during the Koizumi administration broke precedent by explicitly identifying China as a potentially worrisome regional challenge and the DPRK as a security threat to Japan.

Koizumi's strengthening of Japanese-U.S. military ties was paralleled in the eyes of many by his annual visits to the controversial Yasukuni Shrine. The response by Chinese and Korean leaders was to suspend all top level meetings with Japan. Japan's embrace of a more traditionalist domestic nationalism was further reflected in efforts to open up public debates on the possibility of constitutional revision (including most prominently, Article IX which had long been seen as a bulwark of pacifism and a guarantee of minimalist military activities). Middle school text books, approved by Japan's Ministry of Education in 2005, reduced overt discussion of Japan's aggression in World War II along with a whitewashing of matters such as comfort women, the Nanjing Massacre and Unit 731. Moreover, maps in the new books were redrawn, making explicit Japanese territorial claims over disputed islands, notably the Northern Kuriles, Dokto/Takeshima and the Senkaku/Diaoyu group.

Under Koizumi's administration, Japan also became focused on the potential military challenge posed by the DPRK. In August 1998, North Korea had launched a long-range Taepodong-1 missile over northern Japan in what Green called "a brazen act that shook the Japanese out of their remaining complacency about North Korea the way *Sputnik* shook the United States in 1957."³⁴ Prime Minister Koizumi's 2002 visit to Pyongyang had a powerful impact on relations not, as he had initially expected, by generating a normalization of the long frozen bilateral ties, but instead by unleashing a storm of anti-North Korean protest throughout Japan over the unexplained fates of a dozen or so Japanese citizens kidnapped by the DPRK during the 1970s and 1980s. Within the country, a media frenzy spurred by the political right and the harsh rhetoric of LDP Secretary General, and subsequently Prime Minister, Abe Shinzo, managed to inflate the DPRK into a larger-than-life existential threat and Japan's greatest security menace, an image bolstered by what Christopher Hughes has called Japan's "super-sizing" of the DPRK.³⁵

Today the DPRK has material for at least eight to ten nuclear weapons, a substantial contingent of long-range missiles, some 1.2 million uniformed military personnel, and a fleet of spy ships. It has been accused by the ROK and others of having torpedoed a South Korean war ship, the *Choenan* on March 26, 2010 with the loss of 46 ROK sailors. Then, in November 2010, the North

³⁴ Green, *Japan's Reluctant Realism*, p. 22.

³⁵ Hughes, *Japan's Remilitarization*. See also Hyung Gu Lynn, "Vicarious Traumas: Television and Public Opinion in Japan's North Korea Policy," *Pacific Affairs* 79.3 (Fall 2006), pp. 483–508; Pempel, "Japan and the Two Koreas"; Richard J. Samuels "Kidnapping Politics in East Asia," *Journal of East Asian Studies* 10.3 (Nov. 2010), pp. 363–95.

revealed to a visiting American scientist that it had made substantial progress on an enriched uranium facility, followed quickly by a one hour shelling of a South Korean island, the most severe breach in the 50 year armistice that had ended the Korean conflict. As of this writing, North Korea has boycotted the Six Party Talks for over 18 months, and it remains the only country in Northeast Asia that has not signed the Chemical Weapons Convention. And within Japan, well over 100,000 pro-North Korean residents in Japan were, until recently, contributing as much as one billion yen a year to the DPRK, while DPRK transfers of illegal drugs (especially methamphetamines) to Japan create a serious domestic social problem.³⁶

Bilateral Japanese-DPRK tensions turned into a shooting exchange when on December 22–23, 2001, a vessel from the recently invigorated Coast Guard engaged in Japan's first hostile combat since World War II by firing on and sinking a DPRK spy ship that had penetrated Japanese waters. The vessel was salvaged and put on public display in downtown Tokyo well marked with signs underscoring the threats posed by the ship and the DPRK.

Japanese hostility toward the DPRK was also manifest in the Six Party Talks. At every meeting of the Six Party Talks, Japanese delegates opened with statements about the need to resolve the abductees issue and clearly put abductees ahead of denuclearization. In March 2006, the LDP further ramped up the pressure by submitting a bill that would force the government to impose sanctions if North Korea failed to make progress on resolving the abductions issue. The Aso government also extended economic sanctions on the DRPK, contributing to the North's decision to cancel its agreement about new investigations of the abductees with the previous Fukuda government. Once the North went ahead with its second underground nuclear test in April 2009, Tokyo was the first to request an urgent meeting of the UN Security Council and submitted a draft resolution with the United States which ultimately yielded UNSC Resolution 1874. Prime Minister Aso also requested (unsuccessfully) that the United States put Pyongyang back on the list of state sponsors of terrorism.³⁷

Unlike Abe and Aso, both of whom tied foreign policy to the exploitation of anti-DPRK nationalist sentiments at home, the subsequent DPJ government under Hatoyama downplayed the threat of North Korea, the nuclear buildup and the abductees' issue. Indeed DPJ Secretary General Ozawa Ichiro's argued that Tokyo needed to find ways to improve relations with Pyongyang "without being handcuffed by how to resolve the abduction problem."³⁸ Similarly, on November 4, the South Korean daily, *Choson Ilbo*, reported that during his meeting with Choi Sang-yong, a former South Korean

³⁶ Keiichi Tsunekawa, "Why So Many Maps There? Japan and Regional Cooperation," in Pempel, ed., *Remapping East Asia*, pp. 101–48.

³⁷ Pempel, "Japan and the Two Koreas."

³⁸ *Yomiuri Shimbun*, December 20, 2009.

ambassador to Japan, Prime Minister Hatoyama said that Japan did not necessarily have to wait until the abduction issue was fully resolved to normalize diplomatic relations with North Korea.³⁹ Yet as the abductees' issue has been played down, DPRK provocations throughout the later part of 2010 have seen Japan maintaining a tight economic sanctions regime against the North and strong support for the Lee Myong-bok government's tough policies toward the DPRK.

China has presented Japan with more ambiguous security dilemmas. Following bilateral normalization of relations in 1972, Japan became China's major provider of official development assistance and an important contributor of private corporate investment, as well. China has since replaced the United States as Japan's major export destination and China's economic success has provided a welcome life preserver for the struggling Japanese domestic economy through the success of exports by Japanese companies based in the PRC.

At the same time, China's double-digit growth combined with Japan's economic stagnation has made China a looming and ominous challenger to Japan's self-perceptions and leadership capability. Beyond that, Japan's overt military security concerns are triggered by China's rapid expansion of its annual military budget, the not always transparent bolstering of the Chinese missile program and blue water navy, as well as expansion of the country's space program and cyber-capabilities along with Beijing's aggressive search for guaranteed energy sources.

Equally problematic for many countries, including Japan, has been China's leadership of the Shanghai Cooperation Organization (SCO), a six country regional body that includes China, Russia and four Central Asian republics. Designed to counter domestic terrorism and enhance energy cooperation, SCO is, in fact, a rare Asian regional body in that it has conducted multilateral military exercises. Although officially a body that is aimed at no specific countries, SCO has been characterized as "anti-NATO" and contributes to Japan's overall worries about long term Chinese military capabilities and intentions.⁴⁰

Domestic Japanese politics has reflected this basic ambiguity. The frostiness of Japan's relations with both the ROK and China under Koizumi was thawed by the quick and healing visit by his successor Abe Shinzo to Seoul and Beijing, both capitals welcoming the opportunity to improve relations. Yet, in August, 2007, picking up on a theme first articulated by Foreign Minister Aso in November, 2006, Abe, in a special address to the Indian parliament, reaffirmed

³⁹ David Kang and Ji-young Lee, "Japan-Korea Relations: Small Signs of Progress?" *Comparative Connections*, Jan. 15, 2010, at http://csis.org/files/publication/0904qjapan_korea.pdf.

⁴⁰ Joshua Kucera, "Shanghai Cooperation Organization Summiteers Take Shots at US Presence in Central Asia," *Eurasia Insight*, Aug. 20, 2007, at <http://www.eurasianet.org/departments/insight/articles/eav082007a.shtml>.

Japan's goal of forging an "arc of freedom and prosperity," that would create tighter links among four big democracies, India, Japan, the United States and Australia. "This partnership," he said, "is an association in which we share fundamental values such as freedom, democracy and respect for basic human rights as well as strategic interests."⁴¹ China was conspicuously missing from the list of potential members, where analysts interpreted the Japanese "arc" as an effort to forge a new "containment doctrine."⁴²

This complicated mixture of bilateral alliances and increasing economic dependence on Asia in general and China in particular, has left Japan's conventional military posture in a quandary regarding the potential tension between bilateral ties to the United States and increasing regional security linkages to Asia. In the late 1980s, along with spurring APEC in the economic arena, Japan also played a key role in forming the ASEAN Regional Forum (ARF). Initially skeptical of any proposed regional security framework when ARF was first proposed in the late 1980s, and fearful that such an arrangement might undercut their bilateral security alliance, Japan, in the summer of 1991, however, officially shifted its position in favor with Foreign Minister Nakayama proposing that the ASEAN-PMC take on new functions "to improve the sense of security" among its members.⁴³ Though initially greeted with skepticism from the United States and ASEAN, the Japanese proposal gained traction and the new Clinton Administration officially endorsed it in July 1993, declaring that "a multilateral forum for security consultations" was one of the ten major goals for U.S. policy in the Asia-Pacific.⁴⁴ Over time ARF moved to institute a sequence of confidence building measures (CBMs), though ARF has been unable to gain much internal agreement on more comprehensive moves toward preventive diplomacy or collective security intervention. It thus remains far from a genuine "security community" and it is not clear that it has advanced much beyond the widely criticized label of "talking shop."⁴⁵

In place of any new regional multilateral arrangements in areas of traditional military security, Japan has in recent years remained firmly tied to its bilateral relationship with the United States. Ties have been more problematic under the relatively new DPJ government and the issues surrounding U.S. bases in Okinawa have been particularly nettlesome. Nonetheless, the DPJ has broadly endorsed the alliance ties with the result that there is no serious parliamentary opposition to the alliance, unlike the period of LDP rule and

⁴¹ Shinzo Abe, "Confluence of the Two Seas," at <http://www.mofa.go.jp/region/asia-paci/pmv0708/speech-2.html>.

⁴² *China Confidential*, Aug. 22, 2007.

⁴³ Ashizawa, p. 251.

⁴⁴ *Ibid.* p. 252.

⁴⁵ Amitav Acharya, "The Association of Southeast Asian Nations: 'Security Community' or 'Defence Community?'" *Pacific Affairs* 64.2 (Summer 1991), pp. 159–78; and *idem*, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order* (London: Routledge, 2001).

Japan Socialist Party opposition. Indeed, Japan under the DPJ may now be poised to modify its longstanding ban on weapons export so as to allow co-production of military equipment with the United States and “like-minded nations.”

The two countries have, moreover, expanded their preexisting bilateralism ties. Japan, the United States, and the ROK have thus forged—though have since deinstitutionalized—the Trilateral Coordination and Oversight Group (TCOG) and have subsequently met frequently as a trio. Meanwhile the United States, Australia, and Japan are collectively involved in a similar but independent three-party process. Such triangles seek to enhance the current bilateral security ties among the members and might be seen as an expanded effort to balance or at least hedge against a “rising China.”

Yet in an ironic alternative to the trilateralization of previously bilateral military ties that looked suspiciously “anti-China,” in 2008, Japan joined with the other two “plus three” nations in the APT, China and Korea, to institutionalize their own triangular linkage—without the United States. The three have since met separately in each of the three countries to focus on resolving a variety of common issues. In 2010 at Jeju, Korea, they went so far as to make a trilateral commitment to establish a secretariat and to work toward a common investment treaty and a free trade agreement. The three leaders’ meetings are now being supplemented by an increasing number of lower level dialogues among other officials and by efforts to find multilateral solutions to a host of common problems.⁴⁶ Tellingly, these meetings have no particular linkages to the United States and suggest that Japan is showing some “spill over” effects as the result of its economic linkages to China and Korea, and is anxious to institutionalize them in this new trilateral format.

Also indicative of an effort to balance security dependence on the United States with economic dependence on Asia, Japan has been involved in the development of the East Asia Summit (EAS). EAS first met on December 14, 2005. In attendance at both were leaders from sixteen countries—the ten ASEAN members, the additional “three” from the APT (ASEAN Plus Three)—China, Japan and the Republic of Korea—plus Australia, New Zealand and India.

With such actions, Japan has clearly enhanced its foreign and defense policies well “beyond bilateralism.”⁴⁷ Nevertheless, as Michael Green has aptly phrased it: “The multilateral impulse has been strong in Japan’s postwar foreign policy thinking, but in practice it has often been elusive.”⁴⁸

An important characteristic of EAS is its broadened membership reaching beyond the thirteen APT members to include Australia, New Zealand and India. Japan played a continuous behind-the-scenes role in this broad-

⁴⁶ Iida, “Summit Diplomacy”; and Pempel, “Soft Balancing.”

⁴⁷ Krauss and Pempel, 2004.

⁴⁸ Green, *Japan’s Reluctant Realism*, p. 193.

ening, despite Chinese reluctance. For Japan, the new members add a core constituency more likely to resonate with overall Japanese goals for the region than those in the ASEAN plus Three (APT)—particularly those linked to democracy, human rights, and security cooperation with the United States. Although the meetings so far have been more show than substance and it remains unclear how large a role EAS eventually will play as a regional institution, EAS presents one more case in which Japan has been active in support of regional institution building as a supplement to its bilateral ties. The DPJ government has been particularly enthusiastic about EAS. Interestingly, as part of the Obama administration's efforts to "reengage" with Asian regionalism, the United States attended the 2010 EAS meeting in Jakarta (along with Russia) as an observer, suggesting perhaps a renewed overlap between the United States and Japan in their approaches to Asian multilateralism.

Conclusion

Japanese security policies continue to struggle to relocate some sweet spot of equilibrium along the three axes of bilateralism and multilateralism, economics and security, and Asia and the United States. While these were well balanced during the Cold War, and the period of Japan's high economic growth, the country has found it difficult to establish a new and satisfactory equilibrium as its economy has slowed, as Asia has become more economically connected, and as new security challenges emerge from the DPRK and the PRC. In the last decade plus, Japan has proactively fostered Asian regionalism in the financial and even trade areas, but it has hugged the U.S. military ever more tightly in bilateral exclusivity at the same time. Yet both the new DPJ government as well as the Obama Administration softened some of the positions they inherited and both seem more anxious to improve and even to multilateralize links with Asia, even in the security field. In Japan's case this has been most apparent in the search for new ties to China and the ROK with the trilateral leaders' meetings as well as with the EAS. The Obama administration has boosted U.S. activities with ASEAN by signing the Treaty of Amity and Cooperation, by appointing an ambassador to ASEAN and by its interest in joining EAS—all suggestive of a new regional security multilateralism on the United States' part. If these trends continue, they may help to resolve some of the current tension that Japan faces between bilateralism and multilateralism, on the one hand, and the United States and Asia, on the other. At the same time, until Japan's economy is returned to significantly improved productivity levels, any role it is able to play in Asia—whether in the financial or in the security arenas—will be seriously constricted.

