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JAPAN'S RAPIDLY EMERGING STRATEGY TOWARD ASIA

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RÉSUMÉ

Le Japon est en train d'établir des liens économiques beaucoup plus étroits avec ses voisins asiatiques, tant sur le plan gouvernemental que privé. Alors qu'il y a peu de soutien officiel à la création d'un système d'intégration régional formel, des signes évidents montrent que le Japon est le principal initiateur de ce qui peut être considéré comme une régionalisation souple. La participation accrue du Japon dans les autres pays d'Asie se manifeste par une augmentation sensible de l'investissement direct accompagnée d'un afflux important d'aide officielle qui sert à mettre en place l'infrastructure nécessaire à cet investissement. L'évolution des échanges régionaux vers le Japon a été moins marquée mais ceci peut changer au cours des années 90.

Les pays en développement d'Asie ont bien accueilli l'accentuation rapide de cette présence japonaise dans leurs économies et ils feraient preuve d'inconscience s'ils voulaient limiter cet afflux de capitaux étrangers et d'investissement direct. Cependant les pays receveurs ne doivent pas ignorer le fait que la coordination entre l'aide étrangère et l'investissement peut se révéler contraignante et que les sociétés japonaises ont tendance à négocier entre elles. Accepter avec réserve une participation grandissante du Japon en évitant tout accord officiel susceptible d'institutionnaliser le rôle dominant du Japon semble être l'issue la plus probable, et sans doute la plus souhaitable, à la fois pour les pays en développement et pour les principales puissances industrielles. Les négociations régionales officielles ont intérêt à se référer à la base très large représentée par l'Organisation de Coopération Économique dans la zone Asie-Pacifique (APEC) qui inclut explicitement les États-Unis.

Le Japon peut également jouer un rôle dans l'intégration économique régionale des pays socialistes asiatiques. Le fait que le Japon ne soit pas intervenu dans les guerres de Corée et du Vietnam et qu'il représente pour certains un modèle de capitalisme plus séduisant que celui des États-Unis peut susciter, de la part de ces pays, une demande d'aide et d'investissement. Si ceci peut accentuer l'impression de domination japonaise dans la région, le rôle du Japon dans l'engagement économique des pays socialistes contribuera également à réduire les tensions régionales.

SUMMARY

Japan is in the process of developing much closer economic ties with its Asian neighbours, at both the government and private-sector levels. While there is little official support in Japan for the creation of any formal regional integration scheme, there is evidence of Japanese behaviour leading to what can be termed soft regionalisation with Japan as the dominant actor. A major increase in direct investment, supported by large amounts of foreign aid helping to create the necessary infrastructure for that investment, is the principal vehicle for the increasing Japanese involvement in Asia. Regional trade flows have shown less of a shift toward Japan, but that could change in the 1990s.

The developing nations of Asia have been quite receptive to this rapid increase in the Japanese economic presence, and would be quite foolish to restrict the inflow of foreign aid and direct investment. Recipient countries should recognize however that the co-ordination between foreign aid and investment can be confining, and that Japanese firms also show a proclivity to trade among themselves. A process in which these nations accept Japan's rising involvement cautiously while avoiding any formal arrangement that would institutionalise Japan's dominant role is the most likely outcome, and probably the more desirable one for both the developing nations of the region and the major industrial powers. Official regional discussions are best kept on the broad basis represented by APEC, explicitly including the United States.

Japan may also play a role in facilitating the economic integration of the socialist nations in Asia into the region. Because Japan is untainted by direct involvement in the Korean or Vietnam wars, and seen by some to have a more attractive model of capitalism than the United States, the socialist nations may welcome aid and investment from Japan. While this could increase a sense of Japanese dominance in the region, it would also serve a useful role in reducing regional tensions by engaging the socialist nations economically.

PREFACE

The Development Centre is carrying out a major research project on Globalisation and Regionalisation as part of its 1990-1992 Work Programme. The Project aims to provide a better understanding of the economic and political forces that are working for, and against, the formation of regional economic groupings in Europe, the Western Hemisphere and Pacific Asia, and how those forces interact with the forces (essentially microeconomic) that are driving globalisation. The purpose is to assess their implications for the strategies and policies of various categories of developing countries.

The fear that "Europe 1992" will become "fortress Europe" is perhaps stronger in Pacific Asia than in any other region. Perceptions that regionalisation schemes in Europe and the Western Hemisphere threaten to undermine Pacific Asia's future trade and growth possibilities are only heightened by the apparent saturation of U.S. import-growth potential, by the risk of spillover effects from the considerable friction between Japan and the United States, and by the continuing failure to conclude the Uruguay Round successfully. The recent Malaysian proposal to form an East Asian Economic Group, or Caucus, testifies to the pressures that are growing in the region to "reciprocate" through some form of regionalism in Pacific Asia. A balanced and comprehensive understanding of the issue of regionalisation in Pacific Asia is thus becoming increasingly important.

This Paper contributes to such an understanding by addressing the question of whether or not Japan has an identifiable strategy toward the Pacific-Asian region. It argues that while no universal consensus exists in Japan on such a strategy -- there is clearly little support for the creation of any formal regional integration scheme -- and while globalisation and regionalisation will not be exclusive paradigms for Japan, various government and private-sector actions are tending to strengthen Japan's links with its Asian neighbours relative to the links between those Asian economies and other major industrial countries.

In providing a careful look at emerging trends in Japan's trade, investment and aid relations with developing Asia, in pointing up the key role Japan may play in helping to integrate the socialist countries of the region, and in looking from a non-Japanese perspective at commentary in the Japanese-language literature on the issue of regionalisation in Pacific Asia, this Paper -- written by a leading U.S. Japan scholar -- constitutes an important contribution to the Development Centre's research on Globalisation and Regionalisation.

Louis Emmerij
President of the OECD Development Centre
March 1992

INTRODUCTION

At the end of the Second World War, Asia was subject to much of the same tension and division as Europe. Japan, in particular, had many of its formerly strong economic ties with Asia severed and replaced by new ties with the United States. Even the relationship between Japan and South Korea remained strained until 1965, while contacts with China, the Soviet Far East, and North Korea were virtually eliminated. After the mid-1960s, Japan became more active economically in the region, as it did elsewhere in the world, and its reemergence caused some initial negative reaction throughout the region. But in many respects, Japan retained its heavy focus on the United States.

Now this situation is changing swiftly. It is somewhat difficult to speak of a Japanese regional strategy toward Asia, because there is no clearly articulated overall position by either the Japanese government or business toward the rest of the region. This fact may be due partly to a genuine lack of consensus on what Japan's economic behaviour ought to be, but it also appears to be due to an unwillingness to admit a strong regional impulse since the government is committed to the primary global economic institutions of the world. Nevertheless, the accumulation of recent government reports and private sector business actions provides a picture of what is a *de facto* strategy toward the rest of Asia, whether or not one wants to label this strategy as one of regionalisation.

Put in the simplest terms, Japan is moving swiftly toward an informal or soft form of economic regionalisation with other Asian countries. No universal consensus exists in Japan on this strategy, but the evidence that the nation as a whole is drifting in this direction is quite clear. This regionalisation will probably not involve the formation of any formal structures or treaties similar to those in Europe. Any more formal integration scheme (including tariff preferences or a free trade area) is conceivable only if the Uruguay round of GATT negotiations fail, and even then it remains somewhat problematical. Even the boundaries of the region may not be clearly established. Nevertheless, Japan's relationship with other Asian nations already has some characteristics of economic regionalisation which are becoming stronger at a rapid pace.

Globalisation and regionalisation will not be mutually exclusive paradigms for Japan. Japanese firms may have global strategies, the U.S. market may remain the most important for them, and capital may flow from Japan broadly to the rest of the world. But within the context of Asia, a set of government and private-sector actions are emerging which are bringing two important results: stronger economic links between Japan and Asia (stronger relative to those between Asian countries and other major industrial countries), and a certain degree of implicit preferential treatment favouring Japanese firms. These two factors form the essence of what ought to be considered regionalisation.

THE PAST

Geographically, Japan is an Asian country. Culturally, it shares some features with its neighbours (although these are more tenuous than the cultural connections which characterise Europe). The geographical proximity and modest cultural connections make it natural for Japan to have a very strong trade and investment relationship with the rest of Asia. Ever since the Meiji Restoration of 1868, and the conscious decision shortly thereafter to bring Western industrialisation to Japan as a matter of state policy, there has been a struggle between those Japanese who have viewed the nation as primarily Asian and those who have seen it as a member of the industrial-nation club (the West). Japanese imperialism in the early twentieth century - itself an emulation of European imperialism -- focused on control of neighbouring Asian nations. The increasing extremist/militarist form that imperialism took in the 1930s involved a determined rejection of the West and the embrace of an Asian-centric definition of national orientation, in which Japan was portrayed by its military leaders as the saviour of its Asian brethren from Western domination.

Trade also became increasingly dominated by Asia during the 1930s. In the first two decades of this century the share of Japanese exports destined to the United States often exceeded 40 per cent and to Asia also averaging about 40 per cent, but during the 1930s, the share to the United States dropped rapidly (to only 18 per cent by 1939), while that to Asia (principally Manchuria and North China) rose to 65 per cent¹.

Once this strong Asian-centric view was discredited by the tragedy of the Second World War, Japan was rather forcefully torn away from many of these prewar ties, as noted above. Emulation of the West, and particularly the United States, dominated economics, politics, and culture. Interest in Asia was never absent, but Japan was not a major player either economically or politically in the 1950s or the 1960s. Some of those who had been involved with Asian affairs before the war wanted a return to a stronger Asian orientation, but their voice was generally on the losing side of policy debates (such as the question of whether Japan should recognise China after the 1949 Communist victory -- which Japan did not do in deference to the United States²).

The relative lack of a Japanese presence in Asia does not mean that Asia did not figure in Japan's international economic relations at all; in 1960, 26.3 per cent of Japan's exports went to other Asian countries. But this level was substantially less than prior to the war (especially since Taiwan and South Korea were not even part of prewar international trade statistics).

In the late 1960s some changes began to take place which led to a revival of a stronger policy focus on Asia. Strict controls on outward foreign direct investment began to be loosened as the balance of payments problems which had inspired those controls eased. Total Japanese foreign direct investment rose rapidly in the late 1960s and early 1970s, as did the amounts destined to Asia. With the flow of new direct investment from Japan to Asian countries expanding from only \$197 million in

1969 to \$998 by 1973, Asia as a share of Japan's total new foreign direct investment flows rose from 18 per cent to 36 per cent. However, it is somewhat questionable to what extent this represented a sense of return to a regional orientation since one-third to one-half of the reported investment flows in the Japanese statistics in each of these years was directed to Indonesia, largely for raw material development projects³. When pollution controls began to come into place in Japan in the early 1970s, there was also much discussion of simply exporting pollution-intensive industries to elsewhere in Asia, although it is very doubtful that much of Japanese regional investment was ever truly motivated by such a policy. The one industry for which a new regional orientation did develop was textiles. Starting from the late 1960s, investment in this industry through the 1970s meant that by 1981, 18 per cent of cumulative Japanese manufacturing sector direct investment in Asia was in textiles, and this represented 56 per cent of Japanese global investment in this industry⁴. Japan's foreign aid policy also dates from the second half of the 1960s (begun from the postwar reparations program for nations invaded by Japan during the war), and as much as 90 per cent of the bilateral aid in this program went to Asian countries in the early years. Thus, in several ways, a significant upturn in activity toward the rest of Asia materialised in the late 1960s and early 1970s. While the quantities were small relative to what developed in the late 1980s, reaction against the sudden surge in the Japanese presence at that time led to public protests in a number of Asian countries (including Thailand and Indonesia), including a sufficient threat of violence to cause Prime Minister Tanaka to cancel a trip to Indonesia in 1974⁵.

The 1970s brought new economic problems for Japan, but these did not drive the nation closer to Asia. The Nixon shocks (announcement of the intent to recognise China and the decision to cut convertibility of the dollar into gold in the summer of 1971, plus the temporary embargo on the export of soybeans in 1973) led to talk of moving away from the close economic ties with the United States, since trust in American reliability and benevolence had been shaken. Furthermore, the oil shock of 1973 and the general raw material price inflation of that year led to much higher levels of anxiety over raw material supplies. But the geographical interests which emerged did not necessarily centre on Asia. Brazil (and other Latin American countries), the Middle East, and Siberia experienced bursts of new Japanese interest as well. Ultimately, all of these new enthusiasms fizzled out. Economic ties -- including trade, foreign aid, and direct investment -- with the Middle East rose and then fell with the price of oil. At the peak, the Middle East absorbed 25 per cent of Japanese ODA (in 1977), but this then subsided to 10 per cent by the late 1980s⁶. Development of Siberian raw materials was frustrated by inability to agree to suitable terms, and then by the demise of detente in the later 1970s. Brazil appeared to the Japanese to be a vast, untapped source of raw materials (including as a replacement for American soybeans) but proved to be a quagmire as the Japanese discovered how little they understood about achieving results in a poorly understood cultural setting. By the early 1980s, Brazilian debt problems led to a virtual collapse in Japanese interest in building closer economic ties. The only Asian country to benefit substantially from the raw material anxieties during this period was Indonesia, which attracted large amounts of foreign aid and investment money for oil and gas development, as well as a large hydroelectric project (which dovetailed with Japanese interest in moving aluminum smelting offshore after energy prices rose in the 1970s).

Other investment came to Indonesia as well, part of an implicit policy in the 1970s of buying goodwill with raw material suppliers by bringing in investment.

The early 1980s saw the burst of interest in countries possessing raw materials subside, but economic events conspired to further delay a return of regional interest in Asia. The macroeconomic developments that led to rising global trade surpluses in Japan and deficits in the United States sucked Japanese goods and capital into the U.S. market. The share of Japanese exports destined to the U.S. market rose from 24 per cent in 1980 to a peak of 38 per cent in 1986.

Furthermore, attitudes toward Asia, or at least the Asian NIEs, seemed to be dominated by the "boomerang effect", in which Japanese worried that a transfer of technology or continued economic success of these countries would boomerang on Japan, with these countries taking away global markets from Japanese firms. While this was not something that Japan could prevent, such negative imagery certainly acted as a deterrent to direct investment and technology transfer. As a consequence, Japanese direct investment in Asia lagged badly. The annual dollar amount of new investment stagnated, and as a share of total new Japanese foreign direct investment declined rapidly. From the levels of 30-36 per cent of total foreign direct investment flows that were destined to Asia in the second half of the 1970s, the share sank in the first half of the 1980s to reach a low of only 10 per cent by 1986⁷.

Finally, the debt problems of some Southeast Asian nations, including Indonesia and Thailand, militated against higher investment levels. These countries seemed to be mired in the same combination of problems of falling raw material prices, high debt, reliance on state-owned enterprises, and heavy corruption that affected Latin America and other areas.

THE NEW JAPANESE INTEREST IN ASIA

Over the past several years significant change has taken place that reverses the stagnation or decline in Japanese interest in Asia that characterised the first half of the 1980s. The basic building blocks were already present, but over the past several years the relationship has become much broader and deeper at a rapid pace. These changes are evident in both the media (including both official and private sector publications) and in the formation of new institutions and policies.

First, favourable or positive interest and attention given to Asian countries in the media has risen dramatically. The Japanese business media began emphasizing the four Asian NIEs around 1987 and the other ASEAN countries in 1988. With an upbeat economic assessment of the region, the media promoted the idea that these countries were now capable of producing goods of sufficient quality for the Japanese market, thereby endorsing the idea of direct investment in these countries by Japanese firms⁸. The concern of earlier years that the Asian NIEs were economic competitors for the U.S. market has been largely replaced by this new enthusiasm for greater economic interaction with these nations. Indeed, the Japanese now take great pride in the fact that as an Asian nation, they are part of the most rapidly growing region of the world, compared to the continuing problems in Latin America, Africa, and the Middle East. Taking credit for this success, a currently popular notion is that of the "flying geese" pattern, with Japan as the head goose in continuing Asian economic success (an imagery that implies that Japan is the permanent economic leader and that the success of the others flows from Japan). Why enthusiasm for the rest of Asia has increased so much is not entirely clear, but much of the answer appears to lie in the Japanese perception that the United States and Europe are moving toward regionalism (so that Japan had better develop a regional focus itself), and also in the substantial rise of the yen after 1985 (which made Japanese businesses more interested in investing in the region to cut production costs).

Second, the notion of regionalism in Japanese writing goes far beyond the vague comments about the need for an economic bloc in the event of a failure in the Uruguay round of GATT negotiations. The Japanese have certainly been concerned about a possible failure of the GATT round, and fear a move toward bilateralism or regionalism should that happen. The economic unification of Europe in 1992, and its potentially protectionist policies, has been a highly publicised theme. So, too, have been the U.S.-Canada Free Trade Area and its possible expansion into a North American Free Trade Area, plus President Bush's comments about offering similar arrangements to other Latin American nations. Should these developments all materialise, a move to create a formal trade arrangement in Asia is a possibility. However, most of the discussion of Asia in the press, and most of the other developments presented below are occurring without any relationship to the fortunes of the GATT round. While failure of the round would certainly enhance Japanese interest, and could possibly prompt a more formal regional arrangement, the soft regionalism discussed in this paper is already proceeding.

Third, an emphasis on the region as a whole, rather than solely on individual countries has emerged. Although the terms NIE (and its predecessor NIC) and ASEAN have been part of Japanese vocabulary for many years, the expression of business strategies toward the entire Asian region is relatively new. Press reports of Japanese corporate activity in Asian countries, for example, now routinely place these moves in the context of the firm's or industry's Asian strategy. This view appeared first for the large Japanese retailers, which have been building solid ties across the region, and more recently show up in descriptions of the activities of the financial sector and manufacturing as well.

The advance of the retailing sector has been described as broader or more substantial than the existing purchasing offices of Western retail firms dealing in Asia because the Japanese are establishing both purchasing offices and local retail outlets on a large scale in major urban centres in Asia⁹. As part of this trend, the Saison Group established in 1990 a broad "Asian Retailing Affiliation Network" which included cooperative ties between Saison and major retailers in Indonesia, Thailand, Taiwan, Hong Kong, and Malaysia¹⁰. Takashimaya, another large Japanese retail chain, has created local subsidiaries in Hong Kong, Taipei, Bangkok, and Sydney, with the intent of establishing what the company calls a "trans-Asia-Pacific network"¹¹. On the financial front, both the Industrial Bank of Japan and the Sanwa Bank announced recently establishment of subsidiaries in Asian countries in press reports which also placed the moves in the context of broad Asian strategies¹².

Overall, the statistical evidence on the behaviour of Japanese firms is less clear. The subsidiaries of Japanese manufacturing firms operating in Asia in 1988 sold 11 per cent of their output to other Asian countries (other than Japan itself)¹³. This share has risen somewhat over time (from 8.2 per cent in 1983), while the share of output sold within the country of the investment declined (from 67 per cent to 60 per cent over the same 5-year period). Nevertheless, the rise in the regional sales orientation of Japanese manufacturing operations located in Asia through 1988 was still relatively small. The trends in attitudes identified in this paper imply that this ratio will probably rise further in the 1990s, but this remains to be seen.

As the above business examples suggest, the boundaries of the region are very vague and variable. The core appears to be the NIEs plus the rest of ASEAN. Even within this core, though, interest and emphasis in the media and private-sector investment activity has shifted over time. Taiwan and South Korea were the main centres of Japanese interest several years ago, but the main focus now includes Thailand¹⁴. China is often -- but not always -- included, with rising interest recently in the other socialist countries of North Korea and Vietnam. Australia and New Zealand, on the other hand, rarely appear in Japanese writings about the Asia-Pacific region (although trade and investment ties with these two countries have grown rapidly, implying that they are part of business strategies toward Asia even though this is not articulated in the press).

It is also worth noting that interest does not extend farther west than Thailand. Burma, with its isolationist policies of the past and more recent political turmoil is largely outside current Japanese interest, while the South Asian countries are

considered as a separate region, with which Japan is not developing closer ties. On foreign aid, for example, bilateral aid to Southeast Asian countries grew rapidly from 1986 to 1989, such as that to Thailand (rising from \$260 million to \$489 million) or Indonesia (from \$161 million to \$1.1 billion), while that to South Asian countries did not expand much, exemplified by India (up only marginally from \$227 million to \$257 million) or Pakistan (\$152 million to \$177 million)¹⁵.

Japan's relationship with the Asian region is also unlikely to include the ex-Soviet Union in any major way. The Soviet Union had never been a major participant in Asian economic activity, and the Japanese private sector has only limited interest in Siberian raw materials at the present time. Gorbachev's visit Tokyo in April 1991 - an historic first-ever visit by a Soviet leader to Japan -- did virtually nothing to increase Japanese interest in economic involvement. Underlying factors in the relationship with the ex-Soviet Union are considered later in this paper.

Fourth, in thinking about Asia, Japanese government officials, businessmen and academics now talk openly about emerging regionalism and Japan's leadership position in the process. Although this is a theme that was never entirely absent from Japanese academic writing (reflecting in the earlier postwar years nostalgia for the prewar period), and is one that even found expression in the late 1960s in a proposal for a regional free trade area,¹⁶ the sense of Japanese leadership in a real move toward regional economic integration is now much stronger than at any point in the earlier postwar period and is expressed openly by many government officials. Makoto Kuroda, the former chief trade negotiator for the Ministry of International Trade and Industry, recently stated that Asia was heading toward a natural economic integration¹⁷. Similar views about formation of a *de facto* economic bloc in Asia have been expressed by such senior figures as Yukio Suzuki (the former head of research at the Bank of Japan) and Michihiro Kunihiro (Japan's ambassador to Indonesia). Suzuki has reminded the Japanese that their primary focus should be on Asia (even as Japan takes on broader world responsibilities),¹⁸ and Kunihiro has emphasized that Japan's role in Asia will continue to rise as the United States plays less of a role (because of its economic problems at home)¹⁹. The comments of these important and influential officials is all the more significant given the fact that the bulk of their careers has been spent in dealing with the United States and other industrial countries rather than with Asia. Newspaper editorials and academics are also echoing these themes, emphasizing the integration taking place in Asia and Japan's rising role in the region (and the desirability of playing an even stronger role)²⁰.

Fifth, it should be noted that most of what is written about Japan and Asia does not include the United States. There does exist a substantial force behind the broader concept of the Pacific Basin at the diplomatic level, including the United States, Canada, Australia, and New Zealand. Japan is an eager member of the panoply of Pacific Basin organisations (the Pacific Basin Economic Council -- PBEC, the Pacific Trade and Development Conference -- PAFTAD, the Pacific Economic Cooperation Council -- PECC, or the new periodic meeting of trade and foreign ministers initiated by Australian Prime Minister Hawke called Asia-Pacific Economic Cooperation -- APEC). However, much of what is written in the Japanese language dealing with Japan and the region focuses more narrowly on Japan and the NIEs plus ASEAN, with

China included upon occasion, as noted above. References to the United States are often only in terms of its declining power and presence in the region, fitting into the thesis of a regional integration centring upon Japan.

Sixth, in addition to this increased interest expressed in print, new institutions have sprung up in Japan which serve to focus more attention on Asia. Japan's Ministry of International Trade and Industry (MITI) has long had its subsidiary, the Institute of Developing Economies (IDE), known in Japanese as *Ajiken* (the Asia Institute) because of its almost exclusive focus on Asia. IDE has been known for its very credible economic research on Asia, and gives the impression of a previous Japanese focus on Asia (and it dates from the first burst of activity toward the region in the 1960s). However, new institutions are now proliferating which broaden the institutional base for research and personal interaction between Japan and Asia.

Among the recent changes that have taken place, the Foreign Ministry has established a post of ambassador for Asia-Pacific cooperation²¹. More informally, then-Prime Minister Noboru Takeshita went to the 1988 industrial-nation economic meeting in Toronto with the announced intention of raising the issues and concerns of the Asian NIEs, assuming a self-appointed mantle of regional representation that the Japanese government claims it has continued at subsequent summit meetings²². In the private sector, the Matsushita Institute of Government and Management, a small but influential educational institution, began a program in 1989 to train young employees at Japanese firms about particular Asian countries, and launched a broader program of research and exchange programs on the region²³. The National Institute for Research Advancement (NIRA), a government agency that funds social science research, began a number of research projects and conferences with Asian countries in the 1980s, including a series of conferences with China²⁴. Another organisation, the Tokyo Club Foundation for Global Studies, a group set up in 1987, began by building ties with research institutes in industrial countries, but acted in 1989 to establish a separate network of relations across Asia²⁵.

Finally, beyond the formation of new institutional arrangements, the Japanese government now appears to be engaging in leadership in a regional context. This development is occurring in the area of policy to deal with atmospheric warming. This, too, is an area of both global and regional activity. At the global level, Japan in 1990 signed the international agreement to limit carbon dioxide emissions (and which the United States did not sign) to combat global warming. MITI has also devised a broad, vague plan for dealing with this issue on a global basis over the next century. But at the regional level, Japan has moved more rapidly and with more specific content to shape policy on atmospheric warming. In July 1991, the Environmental Agency announced that it had a basic ten-year strategic framework for dealing with atmospheric warming in an Asian context²⁶. As a first step in this overall plan, the Japanese government was planning to use foreign aid to transfer emissions control technology to China plus two other Asian nations, starting from 1992²⁷. Furthermore, the government convened a meeting in Tokyo with representatives from other Asian countries to present these plans²⁸. One could react cynically to this plan, since it plays to technological solutions that will bring extensive business to the Japanese manufacturing sector for emissions control equipment. Nevertheless, this flurry of

early steps in dealing with atmospheric warming represents a major change for Japan, a first effort to devise a region-wide policy and to exercise regional leadership in obtaining its acceptance and implementation.

Given the geographical, cultural, and historical ties between Japan and the rest of Asia, the emergence of institutions, programs, and conferences dealing with Asia is quite natural. The more interesting question might be why so little activity concerning the rest of Asia took place in Japan prior to the mid-1980s. Among those causes lie the legacy of the war, the general Japanese timidity in foreign policy, the general focus on domestic economic development, and economic concerns about the "boomerang effect". Whatever the cause, though, activity has certainly increased rapidly in the past decade, and forms a part of the changed environment of Japanese thinking and behaviour toward Asia.

The statements by government officials, the articles in the press, and the increased institutional activity do not necessarily imply that a regional economic bloc exists or is being formed. Japan is most certainly not returning to the rather exclusive Yen Bloc it constructed in the late 1930s. The only context in which Japanese officials talk about explicit economic regionalisation is if the Uruguay round of GATT negotiations ends in failure, and if the U.S. response to that failure is to pursue a more bilateral or regional strategy itself. But the developments outlined here do represent an important shift of Japanese thinking and behaviour that is a necessary precondition for the evolution of regionalisation. Asia receives far more attention than in the past, the concept of regional economic integration (with Japan and without the United States) is gaining as a concept, and government officials and others advocate a more active role by Japan in bringing about this integration. While these concepts are not universally held in Japan, they do motivate much of the real policy and business behaviour of Japan toward other Asian countries.

TRADE TIES

The area of Japanese involvement which has shown the least real movement in the direction of regionalisation is trade. Given the rising focus on Asian ties delineated above, one would expect that trade data would indicate substantially stronger linkages between Japan and other Asian nations. Some movement has taken place in that direction. Figure 1 shows the percentage share of American and Japanese exports destined to Asian countries over time²⁹. For both Japan and the United States, a rising share of exports has gone to other Asian countries, and that share has always been higher for Japan (almost 37 per cent in 1990) than for the United States (20 per cent). Since 1985, the rise has been quite rapid for Japan, consistent with the increased attention given to the region discussed above. Data on the share of imports of Japan and the United States from other Asian countries, not presented here, show essentially the same trend. Thus, from a Japanese perspective, the nation's merchandise trade is becoming more closely tied to the region.

Figure 2 presents an Asian perspective, showing the share of the exports of Asian countries (other than Japan) that goes to the United States, Japan, or stays within the region. Despite the strong appreciation of the yen since 1985 and depreciation of the dollar, the share of Asian exports destined to Japan did not rise very much from 1985 to 1990 (up only two percentage points). The share destined to the United States remained higher than that to Japan, while the most interesting development has been the strong growth of the share of exports that has remained within the Asian region (other than Japan). These intra-regional exports have been trending upward sharply since 1975 (from 18 per cent in that year to 31 per cent by 1990).

Figure 3 presents the same information for the imports of Asian countries other than Japan. These countries were becoming more dependent upon Japan as a source of imports from 1960 onward, but the trend stabilized after 1985. In 1990, the share of imports of these countries coming from Japan (22 per cent) was higher than the share sourced from the United States (15 per cent), but the disparity has not widened appreciably since 1985. Once again, the strong trend is the continuous rise since 1965 in the share of imports sourced from within the region (up from 11 per cent to 32 per cent).

The data in figures 2 and 3 suggest that the real regional integration is taking place among countries other than Japan. Even with the alteration of exchange rates, Japan has not dominated Asian trade patterns more than it did in the past. Some Japanese commentators have suggested that non-Japanese intra-regional trade has been facilitated by Japanese investments around the region. But as noted earlier, only a small share of the sales of Japanese manufacturing subsidiaries in Asia is to other Asian countries. The total value of those sales was ¥570 billion (roughly \$4 billion at average 1988 exchange rates), which does not appear to be high enough to seriously affect the overall pattern of intra-regional trade³⁰.

Nevertheless, two important shifts in attitude have taken place which are both necessary to facilitate closer regional trade flows including Japan. First, receptivity to manufactured goods from other Asian countries appears to have increased, and Asian products have made visible inroads in some markets in Japan (including bicycles, cotton underwear, and electric fans). Even if the increase in imports from Asia since 1985 is not disproportionately large, there was a need for more receptive attitudes by business and consumers to buttress the increase that has taken place. Having become more receptive, Japan could now continue to experience an increase in its imports from the region, although one should be cautious in predicting how far this trend might go.

Second, Japanese discussions of intra-industry trade are often placed in a regional context. As an empirical phenomenon, intra-industry trade is more prevalent among industrial nations, rather than between industrial nations and developing countries. For Japan, statistical measures of intra-industry trade have been unusually low in the past, but a belief that trade with Asia can and should move in this direction appears to be emerging³¹. This, too, is an interesting new development in Japanese writing indicative of a changed and more receptive philosophy toward Asian nations.

Whether these two developments will seriously alter trade patterns toward a stronger regional orientation during the 1990s remains to be seen. If one focuses on the past, the evidence is mixed -- stronger regional ties from a Japanese perspective, but not so much from the perspective of the region. The apparent increased receptivity to manufactured imports from the region, and the more positive discussion of intra-industry trade also suggest that there is the possibility of a further move toward greater Asian regionalisation appearing in Japanese trade over the next decade.

INVESTMENT

In the five years from 1984 to 1989, the cumulative value of Japanese foreign direct investment in the ASEAN countries plus the Asian NIEs more than doubled (from \$16 billion in 1984 to \$37 billion in 1989), with the dollar value of new direct investment flows rising substantially each year (table 1). Nevertheless, an even greater acceleration of Japanese investment in the United States and Europe occurred at the same time. Japanese cumulative foreign direct investment in the United States roughly equalled that in Asia in 1984, but that in the United States had soared to \$104 billion by 1989, almost triple the size of investments in the NIEs and ASEAN. For Europe, the flow of new investment was roughly equal to that going to Asia in 1984 and 1985 but was almost twice as large by 1989 (\$14.8 billion compared to \$7.8 billion).

The same picture emerges if the focus is restricted to investment in the manufacturing sector. From 1985 through 1989, the cumulative value of Japanese investment in manufacturing grew at an annual pace of 46 per cent in North America, 41 per cent in Europe, and a much lower 19 per cent in Asia. As of 1985, total investment in manufacturing in Asia and North America had been almost equal (\$7.4 billion), while Europe was far behind (\$1.9 billion). But with the differential rates of growth, the totals at the end of 1989 put North America far ahead (\$33.5 billion), and Europe (\$7.8 billion) not as far behind Asia (\$15.1 billion) in relative terms as it had been³².

The surge of Japanese direct investment in the United States relative to that in Asia suggests that Japan does not have any rising regional focus on Asia. Indeed, at the margin, firms have chosen activity outside of Asia -- perhaps evidence of an increasing regional focus on the United States. But what is the appropriate frame of reference? Any emergence of regionalisation ought to be defined by what is happening within the region. From that perspective, the question should be Japan's investment position relative to other foreign investors in the region.

A broad picture of regional investment ties is difficult to develop, since nations collect statistics in different ways. As of the early 1980s, though, a general conclusion from available data would be that Japan and the United States together appeared to be the dominant investors throughout the region. In some countries the United States was the largest single source of inward direct investment by a modest margin, and in some cases Japan held this position. Since the mid-1980s, however, the acceleration of Japanese investment could well move Japan to a substantially larger and more dominant presence in a number of Asian countries. The rough parity of the past could be broken.

A recent Japanese study, assembling foreign direct investment statistics from several Asian countries, shows Japan to have been the largest source of new investment in South Korea, Singapore, Thailand, Malaysia and Indonesia in 1987, and the largest source of cumulative investment in Taiwan (51 per cent of total inward cumulative direct investment), Thailand (24 per cent), Malaysia (42 per cent), and

Indonesia (34 per cent)³³. With Japanese foreign direct investment in these countries and the rest of Asia continuing to accelerate after 1987, Japan's relative share of total foreign investment in the region may be continuing to rise.

In addition, even though the average increase in investment in the region has lagged somewhat behind the increase in Japanese investment in the United States, there are exceptions. In Thailand, for example, new Japanese direct investment flows increased from a low of \$48 million in 1985 to \$1.3 billion in 1989. Thailand is perhaps the country toward which Japanese attitudes have changed the most, from viewing it as a corrupt, over-regulated economy mired in debt problems in the early 1980s, to become a virtual magnet for Japanese investment late in the decade. Cumulative foreign direct investment data for Indonesia through June 1990 also show Japan to be the largest single investor by a sizeable margin, and there is speculation in Japan that Indonesia may even replace Thailand as the most attractive investment location over the next several years³⁴.

A form of implicit favouritism toward the Japanese may also be creeping into investment relations. In 1990, the governments of Singapore and Indonesia jointly decided to set up a government-sponsored venture to build an extensive industrial park on Batam Island (between Singapore and Indonesia). Mitsui and Company, one of the largest trading companies in Japan, was permitted to be the only private-sector equity participant in the venture³⁵. As of late 1990, at least one third of the firms which had decided to build plants on the island were Japanese, making them the largest single source of investment,³⁶ and Kansai Electric Power is building the power station for the island³⁷. These are not exclusive relationships, since other foreign firms are free to invest on the island, but there remains a strong sense that Japanese participation was being given preference, signalled by the equity position of Mitsui.

Much of the sense of major change and increase in Japanese activity comes from looking at the ASEAN countries, since Japan had moved closer to some of the Asian NIEs at an earlier stage, including a rush of investment in South Korea after the two nations finally signed a peace treaty in 1965. As the closest of Japan's Asian neighbours, South Korea since the 1960s has had a strong trade and investment relationship with Japan, and that relationship appears to have undergone less alteration since 1985³⁸. Animosity and competition are a continuing aspect of the relationship with South Korea, part of the overall historical difficulty of Japanese and South Koreans to deal with one another³⁹. However, it would be a mistake to confuse the animosity with a lack of close economic relations. For example, figure 4 shows that every Korean and Taiwanese automobile manufacturer has some relationship with a Japanese firm, and virtually every Japanese auto maker has a tie with a firm in either South Korea or Taiwan. These ties are more pervasive than those of American or European firms with the auto makers of these two countries. Mazda has used its tie with Kia Motors recently to create a joint venture to produce cars in the Philippines -- the first ever example of Japanese-Korean cooperation in third countries⁴⁰. In Taiwan, the other Asian NIE with long historical economic ties with Japan, direct investment has grown steadily over the course of the 1980s, and for the period from 1985 to 1988, Japan was the largest single source of foreign investment, with 34 per

cent of new direct investment coming from Japan (and 28 per cent from the United States)⁴¹.

Should these trends continue, one might label it "accidental regionalisation". Even though the shift in the relative allocation of resources by Japanese firms has actually been away from Asia, the sheer size of the total outflow of capital to the region has caused Japan to emerge as a much larger player in the regional setting as well.

FOREIGN AID

The foreign aid situation is dramatically different from either trade or investment. Japan now dominates ODA given to most of the countries in the region and its relative position of dominance is gaining rapidly. This fact is especially important because of the manner in which Japanese bilateral foreign aid remains closely connected to other Japanese commercial interests. Figure 5 shows that Japan is the largest source of aid to the ASEAN countries by a wide margin. Overall, Japan provided 67 per cent of the net receipts of ODA of ASEAN member nations in 1989 (the latest year for which comparative data are currently available). The only member state for which Japan was a much lesser source of aid was Singapore, but in absolute terms, ODA received by Singapore is quite small (now that it is a prospering, middle-income country) and does not alter the overall picture. Neither the United States nor the multilateral lending institutions are major sources of ODA for these nations; the multilateral institutions supplied only 8 per cent of ASEAN receipts, and the United States an even smaller 5 per cent. Japan's dominance in foreign aid has been changing rapidly. As recently as 1980, Japan supplied a significantly smaller 39 per cent of net receipts of aid by ASEAN countries, 28 percentage points less than in 1989.

For other Asian countries, Japan is not quite as clearly the leading source of foreign aid (table 2). It provided 39 per cent of net ODA to China in 1989, higher than the 31 per cent from the multilateral institutions, and far higher than the small 6 per cent of China's net ODA receipts it provided in 1980. Among the other socialist countries, Japan provided 49 per cent of the ODA received by Burma, but only 3 per cent of that received by Laos.

Despite Japan's rising dominance of the foreign aid market in Asia, from a Japanese perspective, the distribution of aid has actually shifted somewhat away from Asia in relative terms. In 1989, 62.5 per cent of Japan's bilateral aid went to Asian countries, down from 70.5 per cent in 1980⁴². Nevertheless, the overall rise in disbursements of bilateral aid have been so large that the absolute amount (and the relative amount compared to other donors) has risen rapidly. There is also general agreement among specialists that the motivation for Japanese aid is less purely commercial than in the past, with broader political and strategic concerns (and purely humanitarian factors as well) coming to play a more important role in selecting which countries and how much money to supply⁴³. However, any further diminution of the percentage share of Japanese aid going to Asia now seems fairly unlikely. Government officials seem to support maintenance of the present proportional structure.

Foreign aid amounts by themselves imply little about a trend toward or away from regionalisation. However, the nature of the Japanese aid program suggests strongly that it is part of broader moves toward establishing informal regionalisation centred on Japan. The Japanese government has improved the quality of its aid program over the past decade in certain ways. Tied aid, which was once a point of criticism, has diminished considerably. In other respects, though, the philosophy and

practice of Japanese foreign aid continues to be quite different from that of the United States, and may be moving farther away. Two key elements are involved in these differences: the emphasis upon loans rather than grants, and the effort to integrate aid with the broader interests of the Japanese private sector.

The concept that loans rather than grants are the preferable form for bilateral aid is now rather forcefully expressed by Japanese officials. Saburo Okita wrote recently that loans should be preferred over grants because the requirement to repay the money forces greater economic rationality and efficiency in the use of the money⁴⁴. Keidanren, the organised voice of big business has also endorsed sticking to loans for the same reason⁴⁵. These loans are denominated in yen, and the choice of projects for loan financing is heavily skewed toward large infrastructure projects that have a high import content⁴⁶. Therefore, for those parts of the world where Japanese ODA is an important input (with Asia the primary area where this is true), the project-loan nature of aid draws nations closer to Japan economically, as a large share of design work and material for these projects comes from Japan (even when projects are officially untied).

The effort to integrate foreign aid with private sector is also rather openly expressed and defended. An advisory commission to MITI, for example, recommended in 1988 that Japan should promote direct investment by Japanese firms in Asia to bring about industrial specialisation (to promote intra-industry trade) in the region, and use foreign aid to service these direct investment activities. In essence, this report endorsed an aid plan for Asia announced by then-MITI Minister Tamura in 1987, which called for a coordinated policy including foreign aid to help Asian countries with technology and finance to develop appropriate industries, promote Japanese direct investment, and offer larger import markets in Japan⁴⁷. According to this rationale, foreign aid projects should be used to provide the infrastructure needed by Japanese firms investing in each country.

At a recent Japan-Asia conference in Tokyo, the Japanese participants put this point very clearly, talking of foreign aid, Japanese imports, and private investment by Japanese firms as three mutually supporting pillars for Japan's relationship with Asia, and stating that "the public sector will provide loan grants for building up of [sic] infrastructure and the private sector will provide direct investment for building facilities"⁴⁸. In 1990, Keidanren also issued a strong statement saying that loans should remain the pillar of Japanese aid policy, all non-project aid should be stopped, and coordination between government aid agencies and the Japanese private sector should be increased further⁴⁹. Terutomo Ozawa's study for the OECD of Japanese financial recycling efforts identifies these same trends in Japanese aid policy and specifies some of the other concrete ways in which aid has been used in support of private sector activity⁵⁰.

Consistent with this philosophy of private-public coordination, Keidanren established a new organisation, the Japan International Development Organisation, Ltd. (JAIDO) in the spring of 1989 to promote direct investment in developing countries. This organisation is one-third funded by the Overseas Economic Cooperation Fund (OECF) -- the government's soft loan agency. Keidanren has also

established an internal group, the Committee on International Cooperation Projects (CICP) to oversee and approve JAIDO investments⁵¹. JAIDO represents an explicit subsidy of Japanese private-sector direct investment in developing countries. While its mandate is not limited to Asia, it appears that Asia will be a primary location of its activity. One project financed recently by JAIDO has been a Nissho Iwai (one of the major Japanese trading companies) project to set up a pineapple canning factory in the Philippines, with the expectation that the output of canned fruit and juice will supply 10 per cent of the Japanese market (as well as third markets)⁵². While this project may be of benefit to the Philippines, it also provides a direct government subsidy to a commercial Japanese investment which will act to displace American competitors who have been players in the Japanese pineapple-product market. In this sense, JAIDO represents one element of what amounts to *de facto* regionalisation.

Thailand also represents an example of how the Japanese government and business have a common agenda. A significant part of Japanese foreign aid to Thailand has been in the form of loans for an industrial park/port at Laem Chabang. Over the years 1985-1990, the total amount of loans extended comes to ¥27.2 billion (about \$280 million). This is a high level of support, and provides an implicit subsidy for those Japanese firms which choose to locate there⁵³. Laem Chabang is located in the eastern seaboard area of Thailand, a part of the country singled out in the Thai government's most recent 5-year economic development plan. A World Bank report estimated that the total infrastructure costs in the eastern seaboard region would come to \$900 million, with an additional \$300 million for industrial parks, housing, and urban services. The money from the Japanese government, therefore, amounts to a significant portion of the investment costs anticipated for the entire Eastern Seaboard project⁵⁴. With this level of ODA support building infrastructure useful to Japanese companies investing in Thailand, it is no great surprise that direct investment in Thailand by Japanese firms has risen so quickly.

BROADER JAPANESE GOVERNMENT INVOLVEMENT

Foreign aid is not the only means by which the Japanese government has become engaged with economic affairs throughout the region. Driving this engagement is a rising sense of confidence in the validity and success of Japanese economic development, and a belief that the Japanese version of capitalism is different, better, and more appropriate than that of the United States as a model for Asian countries. Japan has had an active industrial policy (which many government officials believe has been an important element of economic success even though academics debate its role), has allowed collusive business activity to a greater extent than does the United States, has relatively weak unions, and has corporations that are far more managerially controlled (and less subject to takeovers) than is the case in the United States or other industrial nations. Japanese interest in exporting its version of capitalism and development is not confined to Asia, but it is certainly the region to which the Japanese government is working the most actively to apply its model.

The strengthening belief in loans rather than grants as an appropriate form of ODA is part of this development. Much of the infrastructure investment within Japan itself in the postwar era was built with money funnelled from the postal savings system through the Ministry of Finance to public-sector organisations in the form of low-cost loans. Japan's ODA philosophy now endorses this as the appropriate model for building infrastructure elsewhere.

A second development is what amounts to the extension of administrative guidance to the activities of Japanese firms in Asia. In the summer of 1990, MITI formed a council of Japanese businesses in Thailand that would be a forum for meeting with MITI officials attached to the Japanese embassy. Similar structures were to be established in most other Asian countries with a Japanese presence by the end of 1991. MITI is also endeavouring to provide advice to Asian governments on how to establish industrial parks ("techno parks") to attract high-technology industries, patterned on similar policies that exist in Japan⁵⁵. Notions that are prevalent in the United States concerning the inability of national governments to control or heavily influence the behaviour of their domestic firms when they locate abroad do not apply to Japan.

THE YEN AND FINANCIAL REGIONALISATION

Even in the context of soft regionalisation, the issue of a yen currency bloc frequently emerges. In the past the yen has played little role as a global reserve currency, or as a currency of choice for denominating trade and financial transactions. Now the yen could move into a more important role, at least in a regional context. However, there are two principal factors working against a rapid evolution of the yen into a more important role.

First, consider the yen as the preferred trade transaction currency. Globally, the yen has had an unusually low role in Japanese trade; as of 1989 only 35 per cent of exports and 14 per cent of imports were denominated in yen⁵⁶. To some extent, currency choice is a matter of negotiating power, with the stronger party preferring its own currency to eliminate exchange rate risk. Since Japan is a dominant economic power in the region, a rising share of Asian trade with Japan could lead to a larger regional role for the yen as Japanese traders insist on their own currency for the transactions. In this way, there could be a large difference in Japanese global behaviour and regional behaviour. But the data in figures 2 and 3 show that the rising importance of Japan from an Asian perspective has been quite gradual on both the export and import side. Furthermore, to the extent that these exports are raw materials, the products tend to have prices that are set by global markets where prices are denominated in dollars. Trade patterns therefore suggest that any shift toward the yen will be gradual -- though very recent data do point to such a shift⁵⁷.

Second, for a currency to be preferred either for transactions or as a reserve currency, a primary requirement is the existence of a large market for liquid, short-term financial instruments. Central banks and traders need to be able to acquire and liquidate their holdings of the currency with ease on a very short-term basis. One of the principal reasons why the yen has not become a more important reserve currency on a global basis has been the very slow speed at which such markets have developed in Japan. A major missing element has been a large, viable market in short-term government paper. Despite repeated promises and announcements about the development of such a market, it remains poorly developed. Failure to push financial change in this direction casts some doubt on the desire of the Japanese government to see its currency used more widely internationally, since there is a tendency in Japan to believe that wider use implies loss of sovereignty, or greater difficulty in managing domestic monetary policy⁵⁸. While most of the discussion of these issues has been framed in the context of global currency use, it applies regionally as well. Data on the currency composition of Asian central banks' international holdings is not readily available, but the yen does appear to have increased only moderately in importance. Further shifts toward the yen may depend on the future progress in building more viable short-term markets in Japan.

On the other hand, a new factor is now operative in the regional context that could accelerate the use of the yen. This is the rapidly rising investment of the Japanese in the region, coupled with the increase in foreign aid. As discussed earlier, Japanese foreign aid loans are denominated in yen. Commercial loans probably

follow a similar trend, although no good data exist on the currency denomination of Japanese commercial lending to Asia. Borrowing, whether it be through foreign aid or commercial markets, imposes a need upon the borrowers to obtain yen to repay the loans⁵⁹. Borrowers can either face a large exchange-rate risk by simply exchanging their own currency or dollar earnings for yen when the need to repay arises, or they can seek larger yen-denominated receipts, in the form of exports to Japan, to raise the necessary revenues. This strengthening financial connection, therefore, becomes a reason for Asian nations to actively encourage rising exports to Japan and the denomination of those exports in yen.

This final point leads to a critical consideration. If the yen is to play a larger regional role, Japan must absorb more Asian exports as a means of providing them with the necessary yen-denominated receipts. This dilemma is similar to that faced by the United States in the 1950s, when the "dollar shortage" was a much-discussed problem. The trend of the past several years suggests that Japan is becoming more receptive to imports from Asian nations, fed in part by the rise in direct investment in those countries from which a moderately rising share of output is destined back to Japan. Much, therefore, will depend on whether exports from Asian countries to Japan continue to expand in the 1990s.

All of these trends suggest a gradual increase in the role of the yen as both a reserve currency and a transactions currency within the Asian region over the 1990s. Very little, however, suggests that these trends are leading in the near future to a stronger yen bloc in which nations would chose to tie their currencies closely to the yen. This is especially true since economic and productivity growth rates should continue to vary widely across the region, producing an environment in which the successful, rapidly growing developing nations will have to have appreciating currencies relative to the yen over the next decade. Therefore, a strong variant of a yen currency bloc with currencies fixed or semi-fixed on the yen seems unlikely.

CHANGING RELATIONS WITH SOCIALIST COUNTRIES

Much of the discussion above pertains primarily to the market economies of Asia. One of the most rapidly changing arenas of Japanese activity, however, is with the Asian socialist economies. Diplomatically and economically Japan is pursuing policies which bring it into closer economic contact with these countries, and which are beginning to produce a considerable distance between Japanese and American behaviour and policy. It is in Asia that the postwar pattern of careful Japanese adherence to American foreign policy positions is breaking down the most rapidly, even though a certain amount of official deference to American positions remains. Any discussion of Japan's role in Asian regionalisation must take into account these developments.

While the United States maintains strong political and moral components in its foreign policy toward these countries, factors that continue to constrain U.S. economic interaction with them, Japan's policies are driven almost exclusively by economics, and its policies have played as close to the edge of American policy as possible. Relative to past behaviour, Japanese interpretations of what the United States will tolerate have become increasingly liberal. This is especially visible with respect to Japan's behaviour toward China.

The Japanese government never subscribed to the moral outrage which dominated American policy in the post-Tiananmen period. The government refrained from using the term "massacre" and instead stuck to less graphic terminology⁶⁰. More important, it never seriously scaled back Japanese government or private-sector activity in China⁶¹. Foreign aid was temporarily disrupted, but disbursements under the final year of the existing multiyear loan program were resumed in the fall, and Japanese technical assistance personnel who had been withdrawn in June were back in China by the end of August⁶². With the quick resumption of foreign aid, net ODA disbursements to China for 1989 were actually considerably higher than in 1988 -- in sharp contrast to the stagnation of China's ODA receipts from all other sources⁶³.

The basic decisions within the Japanese government to move in this direction had been taken by the end of July, less than two months after the massacre⁶⁴. Missions of high-ranking businessmen resumed by the fall of 1989,⁶⁵ and at the beginning of 1990 a new bilateral investment promotion organisation was established⁶⁶. Finally, the Japanese government did nothing to aid the plight of Chinese students who were in Japan at the time of the massacre and who did not wish to return home⁶⁷.

The government maintained it was abiding by international restraints on China as of late 1989 by refusing to reopen negotiations on the next multiyear loan package that had been almost complete before the June massacre, and by eschewing any high-level official meetings with the Chinese. However, very little remained to be negotiated on the loan package, and those final meetings resumed as soon as the United States admitted that National Security Advisor Brent Scowcroft had travelled to China in December⁶⁸. Furthermore, the G-7 ban on high-level meetings was very

liberally interpreted⁶⁹. By the time of the Houston industrial-nation economic summit meeting in July 1990, the loan package was ready to be signed, and the Japanese government already had firm plans for the timing of the formalities even before it sought acceptance by the United States and other summit participants⁷⁰. Still fearful of American criticism, Japan officially termed the initial disbursements under the new loan package to be for humanitarian purposes, although this definition was very loose (included were a hydroelectric power plant and several chemical fertilizer plants)⁷¹. Disbursements under the new five-year loan plan will amount to roughly \$1 billion per year, which should substantially increase Japan's share in the total provision of foreign aid to China.

As the Japanese government moved ahead quickly in late 1989 and 1990 to initiate its new ODA package for China, other moves materialised as well. At the time of the Houston Summit, MITI announced a resumption of medium and long-term trade insurance on China trade⁷². Private commercial banks were providing loans for new projects in China by the early fall of 1990, with several significant new projects announced almost simultaneously with the official signing of the new ODA package in November⁷³. There were also rumours that commercial lending had resumed much earlier, by the fall of 1989, disguised through Hong Kong subsidiaries of Japanese financial institutions⁷⁴. The final step in restoring normal relations, and defining a clear separation from American policy came in the summer of 1991 when Prime Minister Kaifu travelled to Beijing, and thereby became the first leader of a major industrial nation to do so.

The history of Japan's moves toward China since June 1989 suggests little or nothing of the wariness of other industrial nations after the Tiananmen massacre. While not openly or officially breaking with the United States (or other industrial countries), Japan has pursued a different agenda rather successfully. The net result is a strengthening of economic ties between China and Japan relative to those of other countries; Japan will become a more dominant supplier of foreign aid, and the private sector will become a relatively more important source of trade and foreign investment activity in China.

What has transpired between Japan and China now appears to be on the way with North Korea and Vietnam as well. In both cases, Japan has officially refrained from improving relations faster than the United States. However, in anticipation that U.S. positions toward both countries will soften, the Japanese government and business sectors are preparing to become major economic participants. In 1988, one-third of all foreign visitors in Vietnam were Japanese (with the number growing rapidly in 1989) and the MITI-affiliated Institute of Energy Economics has been formulating a master plan for developing Vietnam's electric power grid⁷⁵. In 1990, Japanese trading companies and financial institutions, two important elements of trade and investment infrastructure, began opening offices in Vietnam in anticipation of a rapid expansion of business⁷⁶.

With North Korea, Japan again engaged in an unusual bit of independent diplomacy, with the announcement in late 1990 that negotiations aimed at formal diplomatic relations would begin in early 1991. The motives for this initiative were not

entirely clear, although some South Koreans are convinced that the move is intended to impede reunification of North and South Korea because Japan does not consider a unified Korea in its economic or political interest. Whether this is the true motive or not, the opening of negotiations also appeared to be part of the greater receptiveness of Japan to closer economic ties with the socialist countries of the region. Integrating these socialist countries into any formal regional organisation remains very problematical, but the important point is that Japan can interact with them all while simultaneously dealing closely with the non-socialist countries of the region. Informal regionalisation centred on Japan would facilitate at least a partial integration of these nations into the rest of Asia, with Japan acting as a major go-between.

The kind of interest and enthusiasm in government and business regarding the Asian socialist countries does not apply very much to the ex-Soviet Union or Eastern Europe. Japanese business has a long history of relations with Asian countries (including some who pursued ties with China and North Korea in the 1960s). The upturn in Japan's economic activity with the NIEs, ASEAN and the Asian socialist countries has come from slowly and carefully reached conclusions that these nations were sufficiently stable politically and ready economically for expanded Japanese involvement. Even though Japanese trading companies have been involved in the Soviet Union, the knowledge or understanding of either the ex-Soviet Republics or Eastern Europe seems much less substantial than that of Asia. Furthermore, it seems doubtful that Japanese firms would choose to engage in new and uncertain relationships in the ex-Soviet Republics or Eastern Europe when the nations of Asia offer far greater political stability.

When Gorbachev visited Tokyo in April 1991, not only did he achieve little on the so-called Northern Territories issue, but he received a rather cold reception in meetings with Japanese business leaders. Raw material prices are not sufficiently high to induce much Japanese interest in Siberian raw materials at the present, the quality of manufactured goods in the ex-Soviet Republics does not suggest much potential for substantial increases in their manufactured exports to pay for technology and goods from Japan, and Japanese businessmen have not been particularly impressed with the profitability of investment opportunities in their manufacturing sector. None of this precludes a stronger economic relationship during the 1990s, but the ex-Soviet Union is unlikely to be a serious competitor to Asia for Japanese economic attention.

By the fall of 1991, the Japanese government felt itself under sufficient pressure from the other major industrial nations to announce a \$2.5 billion foreign aid package for the Soviet Union, but upon close inspection, most of this package consists of trade insurance (\$1.8 billion, plus \$200 million in Exim Bank credit guarantees) and Exim Bank loans for trade financing (\$500 million)⁷⁷. These are relatively costless and cautious forms of aid that stand in great contrast to the large infrastructure projects that Japanese foreign aid is financing in Asia. In essence, the Japanese government offered to subsidise and reduce the risk for Japanese exports to the Soviet Union, eschewing (at least for the present time) efforts to build a deeper involvement in the ex-Soviet economy.

Eastern Europe presents an even less interesting prospect for Japanese business at the present time. Some Japanese firms will certainly build economic ties, but one does not detect the sort of enthusiasm which characterises Japanese attitudes toward Asia. Prime Minister Kaifu did announce a \$2 billion foreign aid package (spread across several years) in early 1990 during a visit to the region. But this aid program was very much like the one announced for the Soviet Union in 1991; the bulk of the money is in the form of export insurance (\$740 million) and Exim Bank trade financing (\$1 billion)⁷⁸.

With the rather limited interest in the ex-Soviet Union and Eastern Europe, Japan's interaction with socialist countries will definitely have a regional flavour. Continuing political problems in China, North Korea, and Vietnam could dampen Japan's ability to build closer ties with these nations also, but the prospects are much better than with the ex-Soviet Union, and Japanese interest is much stronger. The one exception could be the recent Japanese interest in creating a regional trade and investment group among those states bordering on the Japan Sea (the Northeast region of China, South Korea, North Korea, and the Russian Far East). Geographically, such a regional effort makes a great deal of sense, but the notion depends critically on diplomatic progress with North Korea and open access to the currently closed port of Vladivostok. While the possibilities are interesting, they lag behind what already appears to be happening between Japan and other parts of Asia.

CONCLUSION

This paper has avoided the usual set of arguments that militate against Japan-centred economic regionalisation in Asia. Fear of Japan dating from the Second World War, continued evidence of Japanese arrogance toward other Asian nations, uneasiness over being drawn into confining relationships with Japanese firms, and other factors have been often stated as reasons why a formal or informal economic bloc would not be possible. Even though these negative factors are certainly real, and may ultimately limit the extent to which Asian nations are willing to draw closer to Japan, they should not be accepted automatically as preventing closer regional economic ties initiated by Japan. Only other Asian nations can answer the question of how close they are willing to move in their economic relationships with Japan, but they appear to have been willing to accept the rise in direct investment and foreign aid in the second half of the 1980s with a minimum of opposition -- far less than that engendered by the initial wave of Japanese activity in the early 1970s. The Japanese are well aware that other Asian nations may resent their economic dominance, but feel that overall, the reception is quite good at the present time.

Rather than focusing on these impediments to Japan-led regionalisation, the main purpose of this paper has been to explain the important changes in attitudes, writings, policies, and economic behaviour that are now bringing Japan into a closer economic relationship with Asia. Japan dominates foreign aid to the poorer nations of the region to such an extent that recipients would be foolish to shy away from closer ties to Japan. Direct investment is also rising rapidly, a trend that promises to continue, giving Japan a physical presence in these countries that is much larger than in the past, and increasingly larger than that of the United States. The only real surprise is that actual trade flows have changed relatively little, although this conclusion could be altered during the 1990s.

A major obstacle to closer regional ties in the past has been the great disparity in the level of economic development between Japan and the other countries in the region. Unlike Europe, Japan has stood out as the largest and most developed nation in Asia by an enormous margin. Regionalisation in this context could only mean Japanese dominance of economic Asia. It is partly for this reason that so much of the official dialogue and institution-building activity in the region has been on a broader Pacific Basin scale, deliberately incorporating the United States as a countervailing presence. But the recent emergence of South Korea, Taiwan, and Singapore as investors throughout the region, as well as the regional trade ties outside of Japan identified earlier in this paper, provide an alternative countervailing power. That is, as ties within the region other than those with Japan strengthen, these nations should become more tolerant of strengthening ties with Japan as well.

Japan remains, though, the largest single economic power in the region. The nature of economic regionalisation envisioned by many in Japan still often appears to comprise features that are criticised elsewhere in the region -- including the currently popular Japanese hierarchical image of Asia as a flock of geese with Japan as the permanent head goose -- and often raised as arguments against its feasibility. As

other contributions to this study show as well, doubts are often expressed in the region about an institutionalised free trade area, in part, because of concern that it would institutionalise Japan's position at the head of the flock, to the detriment of the next tier of developing nations. But the sheer size of Japan's financial position in the region appears to be outweighing previous concerns around the region concerning that nation's role, at least at the present time.

As Japan's network of ties with the region strengthen, then the usual problems related to regionalisation are likely to rise as nations or firms outside the region (both developed nations and developing nations) come to feel that their access to Japan and other members of the Asia Pacific region is impeded. Resentment of Japan may remain sufficient that other Asian nations will continue to oppose any form of formal regional organisation that binds them to Japan, and, from a Japanese perspective, reinforces the desirability of keeping official dialogue on a broader Pacific Basin level in which the United States is explicitly included. Continuation of the broader regional dialogue, therefore, is both feasible (that is, will be supported by Japan diplomatically) and desirable to limit a drift toward a narrower Asian economic regionalism.

Japan is also in a unique position to draw the socialist nations of the region into an informal regional network. While other nations in the region are eager to trade and invest with one or more of the socialist nations of China, North Korea, and Vietnam, only Japan is large enough or politically disengaged enough to deal in a major way with all three. And only Japan is in a position to be a major source of foreign aid for these nations. This aspect of regionalisation could be quite positive in a political sense, engaging the previously disruptive nations of the region in a web of economic ties which lessen their ability or desire to engage in disruptive behaviour.

NOTES AND REFERENCES

1. E.B. Schumpeter, ed., *The Industrialization of Japan and Manchukuo* (New York, 1940), p. 633. The share of exports destined to Asia would be even higher if Taiwan and Korea were included, but since these were direct colonial possessions, they are not included in prewar foreign trade figures. Manchuria, on the other hand, was always officially an independent country and is included as part of international trade.
2. Donald C. Hellmann, *Japan and East Asia: The New International Order*, (New York: Praeger Publishers, 1972), p. 8. Hellmann speaks of an emergent Asian regionalism led by Japan, but did so somewhat prematurely. Much of what is said in his book could be transposed to the 1990s without alteration.
3. Ministry of Finance, *Okurashō Kokusai Kin'yūkyoku Nenpō*, 1982 edition, pp. 351-355. For cumulative direct investment, the share of Asia in the total rose from 19 per cent in 1969 to 23 per cent by 1973.
4. *Ibid.*, pp. 356-357. While textiles represented a sizable portion of Japanese investment in the region at that point, ferrous and non-ferrous metals (located for reasons of raw material availability) were a larger 26 per cent of cumulative Japanese manufacturing investment in the region.
5. William R. Nestor, *Japan's Growing Power Over East Asia and the World Economy*, (New York: St. Martin's Press, 1990) pp. 119-122 discusses the protests at that time, plus the anger aroused in the 1980s over the prevalence of sex tours to Asian countries for Japanese businessmen.
6. Robert M. Orr, Jr., "Balancing Act: Japanese Foreign Aid Policy in the Middle East", in Edward J. Lincoln, ed., *Japan and the Middle East*, (Washington: Middle East Institute, 1991), pp. 34-35. Japanese foreign direct investment in the Middle East followed a similar trend, peaking at 10.7 per cent of total new investment in 1978.
7. Ministry of Finance, *Okurashō Kokusai Kin'yūkyoku Nenpō*, 1990 edition, pp. 444-447.
8. As an example of this trend, see "Ajia no Seiki: Nihon no Yakuwari" [The Asian Century: Japan's Role], *Toyo Keizai*, November 15, 1986; Yukikaku Fukagawa, "Ajia no Dainamizumu o Torikomu Nihon: Nihon-ASEAN-NICs no Shinsangyō Chizu" [Japan Grasping Asian dynamism: The New Industrial Map of Japan-ASEAN-NICs], *Ekonomisuto*, July 4, 1988; or Economic Planning Agency, *Ajia Taiheiyō Chiiki: Han'ei no Tetsugaku* [The Asia-Pacific Region: The Philosophy of Prosperity] (Tokyo: Ministry of Finance Printing Office, 1989).

9. "Yu'nyū Daikōzui II: Kaihatsu Yu'nyū ga Kasoku Suru Hyakketen, Sūpā no Ajia Ryūtsūken" [The Big Flood of Imports II: The Acceleration of Development Imports from the Asian Sphere by Department Stores and Superstores], *Toyo Keizai*, July 4, 1987, p. 14.
10. "Ajia ni Kouri Rengo: Sēson Gurūpu Chūshin ni" [Retailing Association in Asia: The Saison Group at the Centre], *Nihon Keizai Shimbun*, November 25, 1990, p. 1.
11. "Takashimaya: Ajia-Gōshu de Jigyō Kakudai" [Takashimaya: Expanding Businesses in Asia -Australia], *Nihon Keizai Shimbun*, September 3, 1990, p. 13.
12. "Kōgin: Bei Kogaisha Tsuji Ajia ni Kyoten" [Industrial Bank: Establishing A Strong Point in Asia Through Its U.S. Subsidiary], *Nihon Keizai Shimbun*, May 31, 1990, p. 7; and "Sanwa Ginkō: Kaigai Keiretsugaisha no Jōjō Isogu" [Sanwa Bank: Quickly Entering the Stock Market with Foreign Subsidiaries], *Nihon Keizai Shimbun*, August 15, 1990, p. 4.
13. MITI, *Wagakuni Kigyō no Kaigai Jigyō Katsudō: Dai 18•19 Kai* (Foreign Business Activities of Our Nation's Corporations) (Tokyo: Ministry of Finance Printing Office, 1990), pp. 18, 74-75.
14. A survey in 1989, indicated that the attention of Japanese firms was focused mainly on four countries: South Korea, Taiwan, Thailand and China, with Singapore, Hong Kong, Malaysia, and Indonesia a distant second. "Asian markets seen as increasingly attractive", *The Japan Economic Journal*, September 16, p. 8.
15. Margo Grimm, "Japan's Foreign Aid Policy: 1990 Update", *JEI Report*, No. 47A, December 14, 1990, p. 8.
16. Kiyoshi Kojima, *Japan and a Pacific Free Trade Area* (Berkeley: University of California Press, 1971).
17. Charles Smith, "Free Trade: Protectionist Fear Over Trade Blocs", *Far Eastern Economic Review*, June 8, 1989, p. 68.
18. Yukio Suzuki, "An Economist's View: Houston Summit Challenges Nation", *Japan Times Weekly*, July 30-August 3, 1990.
19. Michihiro Kunihiro, "Ajia -Taiheiyo Kyōryoku no Keizaiteki Sokumen" [Economic Dimensions of Asia-Pacific Cooperation], *Gaikō Fōramu*, September 1990, No. 24, pp. 20-27.
20. Waichi Sekiguchi, "New Decade Brings New Role for Japan", *Japan Economic Journal*, December 30, 1989, p. 1, quotes a Professor Kamo of University of Tokyo saying that "Japan should organize a similar [to the EC and U.S.-Canada FTA] sphere in the Asia Pacific region by using its clout"; "Japan Set

for Political Role in Asia", *Japan Economic Journal*, October 13, 1990, p. 3; and *Asahi Shimbun*, January 4, 1989, p. 5, contains an editorial stating that "An Asian economic bloc -- including Japan -- is coming about naturally. What is necessary is for Japan not to give the impression to the countries into which it is advancing the impression that it has occupied them".

21. James Sterngold, "Japan Builds East Asia Links, Gaining Labor and Markets", *New York Times*, May 8, 1990, pp. A1, D18.
22. Edward J. Lincoln, *Japan's Unequal Trade* (Washington: The Brookings Institution, 1990), p. 131.
23. "Centre targets Japan-Asia ties", *Japan Economic Journal*, September 9, 1989, p. 10.
24. *Gekkan NIRA* (NIRA Monthly), vol. 8, No. 9, September, 1986; *NIRA Nyūsu* [NIRA News], June 1989, p. 4. At the fourth NIRA/China conference, the focus was on Asian cooperation in struggling against rising protectionism in the United States and Europe.
25. The Tokyo Club Foundation for Global Studies, *Asia Club Papers No. 1* (Tokyo: The Tokyo Club Foundation for Global Studies, June 1990). The Foundation sponsored an Asian research institute conference with participants from leading institutes from Japan, Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand -- the NIEs plus ASEAN focus emphasized above in this paper.
26. "Ajia Zen'iki de Ondanka Taisaku: Kankyōchō 10-Nen Keikaku" [A Counterplan for Warming in All of Asia; The Environmental Agency's 10-Year Plan], *Nihon Keizai Shimbun*, July 4, 1991, p. 5.
27. Ajia Shokoku no Kankyō Hozen Shien; Kankyōchō, Gijitsu Chōki Iten o Keikaku" [Supporting Preservation of the Environment in Various Asian Countries; Plan of the Environmental Agency for Long-Term Transfer of Technology], *Nihon Keizai Shimbun*, July 29, 1991, p. 21.
28. "Jōyaku Zukuri e Kankyō Gaikō Kappatsuka" [Activating Environmental Diplomacy Toward Establishing a Treaty], *Nihon Keizai Shimbun*, July 20, 1991, p. 13.
29. The countries other than Japan included in the definition of the region for the purposes of this figure are China, South Korea, Taiwan, Singapore, the Philippines, Thailand, Indonesia, Malaysia, Australia, and New Zealand. A narrower focus, excluding Australia and New Zealand alters the percentages in figures 1, 2, and 3 by only a minor amount.
30. MITI, *Wagakuni Kigyō no Kaigai Jigyō Katsudō: Dai 18•19 Kai* (Foreign Business Activities of Our Nation's Corporations) (Tokyo: Ministry of Finance

Printing Office), pp. 74-75. Total regional trade for the Asia region in 1989, according to the data used for figure 2 was \$123 billion.

31. A statement of enthusiasm over regional intra-industry trade comes through in the Economic Planning Agency, *Keizai Hakusho* [Economic White Paper], 1988 edition, pp. 88-127.
32. Data are from Ministry of Finance, *Okurashō Kokusai Kin'yūkyoku Nenpō* [Annual Report of the Ministry of Finance, International Finance Division], 1990 edition, pp 448-462, and 1986 edition, pp. 458-459. Prior to 1990, this source did not provide detail by country by type of investment. The Asia total is quite broad (including South Asia) as is Europe (including the Soviet Union).
33. Economic Planning Agency, ed., *Ajia Taiheiyō Chiiki--Han'ei no Tetsugaku: Sōgō Kokuryoku no Kanten Kara Mita Nihon no Yakuwari* [The Asia-Pacific Region -- The Philosophy of Prosperity: Japan's role Seen from the Viewpoint of Overall National Power] (Tokyo: Ministry of Finance Printing Office, 1989), p. 96.
34. Japan's share of total cumulative inward investment according to these data is 18 per cent, followed by Hong Kong, at 10.1 per cent. The United States has only a 5.6 per cent share. *Indonesia Facts: Investment*, September 1990, p. 1.
35. "Mitsui Bussan: Indonesia-Batamushima Kaihatsu; Gappei de Sōgō Butsuryu Kaisha" [Mitsui and Company: Indonesia/Batam Island Development; A Materials Handling Joint Venture Company), *Nihon Keizai Shimbun*, August 30, 1990, p. 13. Mitsui has a 5 per cent equity stake, and one member on the board of directors.
36. "Growth Triangle Has Strong Investment Pull: Firms Cut Costs, Find Cheaper Labor on Batam Island", *The Japan Times Weekly International Edition*, November 12-18, 1990, p. 17. At that point in time, 9 Japanese firms had announced plans to build, compared to 4 American firms.
37. "Kanken ni Kensetsu Sanka Yōsei; Indoneshia no Batamyu Karyoku" [Requesting Kansai electric to Participate in Construction; Steam Generator in Indonesia's Batam], *Nihon Keizai Shimbun*, March 4, 1991, p. 9.
38. Cumulative Japanese foreign direct investment in South Korea totalled only \$5 million in 1968; the flow of new investment then accelerated from \$10 million to \$211 million by 1973, after which it fluctuated in a range of \$100-200 per year for most of the rest of the decade. Ministry of Finance, *Okurashō Kokusai Kin'yūkyoku Nenpō*, 1982 edition, p. 352. It is also worth noting that in contrast to Southeast Asia, Japanese foreign direct investment flows to South Korea did not accelerate much after 1985 (totalling \$606 million in 1989).

39. Nanshi F. Matsuura, "Management Conflict and Foreign Direct Investment: The Case of Japanese Investment in South Korea", *The Columbia Journal of World Business*, Vol. 24, No. 2, Summer 1989, pp. 61-67. Matsuura notes that a substantial portion of Japanese firms considering investment in South Korea never carry through on their plans.
40. "Matsuda-Kia Jidōsha, Pi de Jōyōsha Seisan" [Mazda and Kia Motors to Produce Passenger Vehicles in the Philippines], *Nihon Keizai Shimbun*, October 13, 1990, p. 1. This is supposed to be the first example of a Japanese firm and South Korean firm working together in a third market.
41. Council for Economic Planning and Development, Republic of China, *Taiwan Statistical Data Book*, 1989, p. 270.
42. Margo Grimm, "Japan's Foreign Aid Policy: 1990 Update", p. 7; and Ministry of Foreign Affairs, *Japan's ODA 1988* (Tokyo: Association for Promotion of International Cooperation, 1989), p. 45.
43. For the evolution of broader political concerns in the disbursing foreign aid, see Dennis T. Yasutomo, *The Manner of Giving* (Lexington Books, 1986); Juichi Inada, "Japan's Aid Diplomacy: Economic Political or Strategic", *Millennium*, vol. 18, Winter 1989, pp. 399-414; or Robert M. Orr, Jr., *The Emergence of Japan's Foreign Aid Power*, (NY: Columbia University Press, 1990), especially pp. 52-68.
44. Saburo Okita, "The Dazzle of the Asian Economies", *The International Economy*, August/September, 1990, p. 70.
45. Keidanren, "Wagakuni no Enjo Rinen to Kongo no Seifu Kaihatsu Enjo no Arikata ni Tsuite" [Concerning Our Country's Assistance Philosophy and the Proper Course for Official Development Assistance in the Future], 1990.
46. Richard P. Cronin, *CRS Report for Congress: Japan's Expanding Economic Role and Influence in the Asia Pacific Region: Implications for U.S. Interests and Policy*, September 1990, p. 44.
47. Ministry of International Trade and Industry, Minister's Secretariat, *Nihon no Sentaku: Nyū Gurōbarizumu e no Kōken to 'Shin-Sangyō Bunka Kokka' no Sentaku* [Japan's Choices: Choices Concerning Contributions to the "New Globalism" and the "New National Industrial Culture"] (Tokyo: Tsusho Sangyo Chosakai), pp. 50-53.
48. Asian Forum Japan, *The Asian Era--Theme and Prospect: Asian Forum Japan Commemorative Symposium*, pp. 23-24.
49. Keidanren, "Wagakuni no Enjo Rinen to Kongo no Seifu Kaihatsu Enjo no Arikata ni Tsuite" [Concerning Our Country's Assistance Philosophy and the Proper Course for Official Development Assistance in the Future], June 16, 1990.

50. Terutomo Ozawa, *Recycling Japan's Surpluses for Developing Countries*, (Paris: OECD Development Centre, 1989).
51. *Japan Times Weekly Overseas Edition*, April 15, 1989, p. 10.
52. "Hi ni Gappei Kaisha Painappuru Ikkan Seisan Chakute" [Starting Off with Integrated Production of Pineapples in a Joint Venture], *Nihon Keizai Shimbun*, September 3 1990, p. 11.
53. Ministry of Foreign Affairs, *Japan's ODA 1989* (Tokyo: Association for Promotion of International Cooperation, 1990, pp. 153-156; *Japan's ODA 1987*, pp. 145-146; The Overseas Economic Cooperation Fund of Japan, *Quarterly Report on OECF Operations for The Fourth Quarter of FY 1989*, pp. 20-21.
54. The World Bank, Thailand: Managing Public Resources for Structural Adjustment (Washington: The World Bank, 1984), pp. 192-199.
55. "Ajia Shokoku ni Sangyō Ritchi Shidō" [Local Guidance for Industry in Asian Countries], *Nihon Keizai Shimbun*, September 20, 1990, p. 5. The two policies of local councils and preparation of a booklet on how to form techno parks was announced at the same time under this overall theme of creating "local guidance".
56. Douglas Ostrom, "Japan's Emerging Role in International Financial Markets", *JEI Report*, No. 38A, October 5, 1990, p. 11. These percentages have risen over time, but the change on the export side has stagnated at the 35 per cent level, and on the import side remains unusually low despite the increase.
57. See for example, "Yen used more in Asian Trade", in *The Financial Times*, 13th February, 1992.
58. Ralph C. Bryant, *The Evolution of the International Monetary System: Where Next?*, Brookings Discussion Papers, No. 76, July 1989, p. 40, makes reference to recent expression of concern about loss of sovereignty by Japanese economists.
59. By the late 1980s, 30 per cent of Malaysia's external debt was estimated to be denominated in yen, along with 40 per cent for Thailand and 30 per cent for Indonesia. The relative absence of yen-denominated export earnings, however, proved to be a problem for Indonesia in the earlier 1980s and led to negotiations with the Japan Exim Bank to redenominate loans in dollars. David D. Hale, "New Currency Zones and Strategies for the U.S. and Japan, or Will the Yen Displace the Dollar as the Pacific Rim's Reserve Currency?", unpublished paper, November 1988, pp. 12, 18.
60. A roundtable discussion in a Foreign Ministry magazine, for example, rarely refers to the events in Tienanmen square themselves, and then only as *daisanji* -- a big disaster or big accident. "'Tenanmon Jiken' Igo no Chūgoku to Nihon" [China and Japan after the 'Tiananmen Incident'], *Gaikō Fōramu*,

No. 12, September 1989, p. 18. When former Finance Minister Miyazawa visited China in July of 1990, he referred to the Tiananmen massacre only as the *rokugatsu fukō*, the June misfortune, rather mild language; "Chūgoku ni Minshuka Dōryoku Unagasu" [Requesting China to Do Its Best to Democratize], *Nihon Keizai Shimbun*, July 25, 1990, p. 12.

61. For a review of events from June 1989 to early 1990, there is an excellent article by K.V. Kesavan, "Japan and the Tiananmen Square Incident: Aspects of the Bilateral Relationship", *Asian Survey*, Vol. 30, No. 7, July 1990, pp. 669-681. He agrees that business relations were restored rather quickly and that Japan purposefully took a low-key diplomatic approach.
62. Sumio Kido, "Japan moving to normalize China ties", *Japan Economic Journal*, August 26, 1989, pp 1,4. The government warning on travel to China was lifted in mid August. Simultaneously, the Foreign Ministry announced that Japan would resume disbursements on existing foreign aid projects, as well as return the Japanese experts and engineers working on the official development assistance projects who had gone home in June.
63. OECD, *Geographical Distribution of Financial Flows to Developing Countries*, (Paris: OECD, 1991), p. 81. The net flow from Japan in 1989 was \$832 million, up from \$674 million. Receipts from all other sources were stagnant -- \$1 316 million in 1988 and \$1 325 million in 1989.
64. "Japanese Development Work in China Could Resume Soon", *Japan Times Weekly Overseas Edition*, August 19, 1989, p. 11, cites a government source giving informal details on August 3 that were practically identical with what the Japanese government announced on August 17 regarding technical personnel and travel restrictions.
65. "Taichū Keizai Shūfuku o Mosaku" [Groping to Repair Economic Ties with China], *Asahi Shimbun*, September 17, 1989, p. 1.
66. "Tōshi Sokushin Kikō Setsuritsu Isogu" [Hurriedly Establishing an Investment Promotion Organization], *Asahi Shimbun*, January 11, 1990, p. 9. The organisation is called the *Nichū Tōshi Sokushin Kikō* (Japan-China Investment Promotion Organisation), which is to act as a go-between to facilitate investment by Japanese firms in China.
67. "Japan: Harassment of Chinese Dissidents", *News From Asia Watch*, October 4, 1990. Chinese claiming to be dissidents were forcibly repatriated; requests for asylum were obstructed; and access of Chinese to legal counsel and information on asylum or refugee regulations was impeded.
68. "Taichū Enshakkan, Saikai e" [Toward Resumption of Yen Loans to China], *Asahi Shimbun*, January 9, 1990, p. 1.

69. Trips to China in the summer of 1990 to announce the upcoming ODA package, for example, included Deputy Foreign Minister Owada, Shin Kanemaru (a powerful figure in the ruling Liberal Democratic Party), and then-Deputy Prime Minister (now Prime Minister) Kiichi Miyazawa. James Sterngold, "Tokyo Said to Tell China It Will Go Ahead on Loans", *New York Times*, July 19, 1990, p. A12.
70. "Raigetsu, Minseimuke Saikai" [Next Month, Reopening [loans] for Citizens' Life], *Nihon Keizai Shimbun*, July 7, 1990, p. 1.
71. "365-Okuen Kyōyo de Chōin: Taichū Enshakkan Dai-ichidan" [Signing to Provide ¥36.5 billion: The First Round of the Loans to China], *Nihon Keizai Shimbun*, November 3, 1990, p. 1.
72. "Taichū Bōeki Hoken mo Saiken", *Asahi Shimbun*, July 13, 1990, p. 8. Short-term insurance had never been suspended.
73. See, for example: "Sōgaku 8200-Mandoru de Gōi: Hōgin 11-ko Fukumu Taichū Kyōchō Yūshi" [Agreement on a Total Amount of \$82 Million: Financing for China Including 11 Japanese Banks], *Nihon Keizai Shimbun*, September 27, 1990, p. 7; "Fujigin ga Taichū Yūshi, Kōkūki Yu'nyūhi ni Yaku 1-Okudoru" [Fuji Bank Supplies Capital to China, Roughly \$100 million to Import Planes], *Nihon Keizai Shimbun*, October 29, 1990, p. 3; "Suzuki, Chūgoku de Keijōyōsha [Suzuki, Light Automobiles in China], *Nihon Keizai Shimbun*, November 5, 1990, p. 1; "Chūgoku ni 2000-mandoru Yūshi: Hōgin 4-kō Kyō Chōin" [\$20 million in Financing for China: Four Japanese Banks to Sign Today], *Nihon Keizai Shimbun*, November 14, 1990, p. 5; or "Hikiuke Shidan ga Katamaru: 8-Okudoru no Taichū Kyōchō Yūshi" [Underwriting Syndicate Solidified: Cooperative Financing for China of \$800 million], *Nihon Keizai Shimbun*, November 18, 1990, p. 3 (with Japanese providing about \$400 million out of the total).
74. Robert Tomson, "Japanese Eager to Resume Aid to China", *Financial Times*, July 13, 1990, p. A4.
75. Akihiro Tamiya, "Japan is ready to test waters in Vietnam", *The Japan Economic Journal*, September 2, 1989, p. 2.
76. As examples of the emerging business ties, see: "Rainen Gohan ni mo Gaigin Shiten Ninka; Betonamu: Shikin donnyū nado Narau" [By the Second Half of Next Year, Approval for Branches of Foreign Banks; Vietnam: Aiming at Introducing Capital], *Nihon Keizai Shimbun*, August 17, 1990, p. 9; or "Betonamu Hokengaisha to Yasuda Kasai ga Gyōmu Teikei" [Business Cooperation between Vietnamese Insurance Firm and Yasuda Fire and Casualty], *Nihon Keizai Shimbun*, December 14, 1990, p. 7; or "Tai-Betonamu Bōeki ga Kyūkakudai: Shōsha, Aitsugi Kyoten" [Trade with Vietnam Expanding Rapidly: Trading Companies Establishing Bases One After Another], *Nihon*

Keizai Shimbun, November 6, 1990, p. 11. By late 1990, four large trading companies had opened offices in Vietnam.

77. "Tai So Shien ni 25-Oku Doru" [\$2.5 Billion in Support for the Soviet Union], *Nihon Keizai Shimbun*, October 9, 1991, p. 1.
78. "Japanese Aid to Eastern Europe Announced", *JETRO Monitor*, June 1990, p. 1.

Table 1

JAPANESE DIRECT INVESTMENT IN ASIA

(\$ MILLION)

Country	1984	1985	1986	1987	1988	1989	Cumulative Total
South Korea	107	134	436	647	483	606	3 854
Hong Kong	412	131	502	1 072	1 662	1 898	8 066
Taiwan	66	114	291	367	372	494	2 285
Singapore	225	339	302	494	747	1 902	5 715
Thailand	119	48	124	250	859	1 276	3 268
Indonesia	374	408	250	545	586	631	10 435
Malaysia	142	79	158	163	387	673	2 507
Philippines	46	61	21	72	134	202	1 322
NICs/ASEAN	1 491	1 314	2 084	3 610	5 230	7 762	37 452
China	114	100	226	1 226	296	438	2 474
U.S.	3 359	5 395	10 165	14 704	21 701	32 540	104 400
Europe	1 937	1 930	3 469	6 576	9 116	14 808	44 972

Source: Ministry of Finance, *Okurasho Kokusai Kin'yukyoku Nenpo*, 14th edition, 1990, pp. 443-444.

Table 2

FOREIGN AID IN ASIA

(MILLION US\$)

1989	D O N O R			Total
	Japan	U.S.	Multilateral	
Thailand	489	31	56	706
Malaysia	80	-1	14	140
Singapore	11	1	1	95
Indonesia	1 145	31	133	1 384
Philippines	404	192	87	845
ASEAN total	2 128	254	291	3 170
China	832	0	660	2 157
Vietnam	2	2	57	129
Myanmar	71	2	94	184
Laos	19	0	94	137
India	257	69	768	1 906
Pakistan	178	263	439	1 103

Source: *Geographical Distribution of Financial Flows to Developing Countries*, (Paris: OECD, 1991).

FIGURE 1

FIGURE 2

FIGURE 3

FIGURE 4

FIGURE 5