

# Chapter 3

## From the Ashes Reconstruction and Resurgence (1950-1973)

Geographical isolation and cultural and linguistic distinctiveness have made the Japanese highly self-conscious and acutely aware of the difference from others. In a way, this has been a great asset to them in the modern age of nation-states, for they have faced no problem of national identity...On the other hand, extreme self-consciousness bred of isolation has become a serious handicap in the current age of international interdependence. It has made the Japanese somewhat tense in their contacts with foreigners, and they have shown relatively little sensitivity to the feelings and reactions of other peoples. At times, they appear to be obsessed with a sense of either superiority or inferiority towards the outside world.<sup>1</sup>

A discussion on Japan's leadership potential and role through the 1950s and early 1960s, as suggested above by Edwin Reischauer, the father of US postwar scholarship of Japan, was a subject few were considering. After suffering mass devastation and dislocation as a result of the Second World War, Japan's reconstruction in the face of growing anti-Communist tensions became the main consideration for the Allied Powers Occupation forces. The huge costs of prosecuting the war, added to those faced from the loss of its colonial possessions in East Asia after 1945, laid the basis for perceptions that Japan could never again become the power that it previously was. Further complications during the Occupation, including attendant inflation and the complexity of reforms, certainly weighed heavily in the minds of scholarly analysis.

But fears about recovery became replaced over time with fears of too much recovery. Japan was able to quickly rebuild, utilising existing strengths, such as high

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<sup>1</sup> E. O. Reischauer, *Japan: The Story of a Nation*, 4<sup>th</sup> edn., McGraw-Hill, New York, 1990, p. 8.

standards of education and low wages, combined with the benefits gained from the Occupation, notably access to the US market and technology. With Japan's centralised bureaucracy, through experienced ministries such as the Ministry of International Trade and Industry (MITI) and Ministry of Finance (MOF), it deftly implemented policies that succeeded in re-establishing existing industries whilst entering new fields, boosting production, market share and profits. Within a decade of the San Francisco Peace Treaty, questions surrounding Japan turned from its susceptibility to continental Communism to the rapid growth of its economy and its increasing regional economic strength. Such a leap in economic capability had been considered so unlikely that the eventual rise of Japan to such economic heights was regarded as 'miraculous'.

It is in these formative years that postwar perceptions of Japan and its ability to lead (or follow) were established. After pursuing East Asian autarchy in the 1930s, questions about Japan and leadership came to be viewed in a different light after the Second World War. After initially being seen as a peripheral concern compared with the battle for control of mainland China before 1948-49, Japan soon attained critical importance in the US desire to contain communist influence in East Asia as China fell under the influence of the rival global ideology. Japan then became, as far as US postwar administrations were concerned, a country of great importance, not just as a 'workshop' for capitalist East Asia but as a power centre crucial in the international conflict between the rival ideologies. This US interest in Japanese support was based on two systemic economic and geopolitical factors. Combined with the Cold War and the practical application of the Truman Doctrine, the ramifications of the Great Depression were perhaps the most formative experiences for postwar US foreign policy. Hoping to avoid First World War mistakes that eventually led to the Great Depression, the US policy of active intervention in international relations and political economy sought to overcome the previous problems

regarding collective action.<sup>2</sup> Japan could lead as a crucial supporter of US regional strategic and economic interests and assist in shaping the East Asian political economy to fulfil those wider interests.

This role for Japan within the US hegemonic structure was demonstrated through regional US strategic and economic policy and the use of its influence to assist in Japan's re-integration into regional affairs. In strategic terms, US policy not only reinforced Japan's supporting role through the conclusion of a bilateral security treaty, but also through the other regional security agreements that the US entered into. US strategic policy also centred on Japan's strategic significance as a staging post against potential Communist adventurism in East Asia, a point underlined in the aftermath of the Korean and Vietnam Wars. It was as this 'bulwark' against Communist expansion that strategic policy combined with economic policy. As an East Asian 'workshop', Japan could not only economically redevelop but also act as a market for the rest of capitalist East Asia. While this role changed given the inability of the region to buy Japanese manufactures, the US policy to aid this transformation remained unchanged until the early 1970s.

However, what was viewed as leadership from the US perspective was not seen favourably by East Asia. Japanese autarchy through the GEACS had serious ongoing repercussions for the peoples of the region. Whilst positive in removing the previous colonial regimes and pursuing the ideal of Asian independence, the means and self-interests by which Japan exercised its authority over these territories severely undermined any legitimacy Japan had as a regional political or strategic leader.<sup>3</sup> The likelihood of increased Japanese influence, let alone leadership, was opposed. During the Allied Occupation of Japan, most regional representatives sought far harsher reparations, which eventually took 15 years to complete with the non-Communist Asian States.

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<sup>2</sup> see G. Ikenberry, 'Creating Yesterday's New World Order: Keynesian "New Thinking" and the Anglo-American Postwar Settlement', in J. Goldstein and R. O. Keohane (eds.), *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*, Cornell University Press, Ithaca NY, 1993, pp. 57-86.

<sup>3</sup> N. Tarling, *A Sudden Rampage: The Japanese Occupation of Southeast Asia 1941-1945*, p. 124.

As noted in Chapter 2, conceptions of a leading role for Japan developed over an extended period of time and directly related to economic areas. Following on from its contribution to the region through reparations, Japan slowly built up a regional relationship based on a mutual interest in economic development. Although not convinced of the merits of trading with poor, newly independent states in Southeast Asia, because of the need to acquire raw materials for its own economic development and US pressure, an increasing amount of Japan's economic activity occurred in the region. As mentioned above by Rix, this closer regional connection started through trade and aid and only really began to expand into direct investment towards the latter stages of the 1960s. However, even at this level, the region remained aware of Japan's presence as a potential threat despite the alliance with the US. The Tanaka Riots in 1972 spelled out that, while Japan could have a regional role as a facilitator of economic development, this role was limited. A large Japanese presence of any kind was going to be considered in light of regional experiences during World War Two. This difference in what constituted leadership between US and the immediate region remained a point of strong and enduring tension.

## **The Occupation and the Reformation of Japan**

After the Second World War, US policy in East Asia and Japan in particular underwent a substantial policy shift to realign itself with the ongoing reorganisation of East Asia resulting from the end of Japanese autarchy, the Communist victory in China and the growing Soviet threat to US regional interests. The drive to reform Japan occurred in two phases: the initial stage where Japan was to be slowly formed into a Western-style liberal democracy between 1945 and 1947, and the subsequent period until the end of the Occupation in 1951, when 'speedy recovery' was the primary aim of a reform process driven by the spread of Communism in East Asia.<sup>4</sup> During the first phase, under the

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<sup>4</sup> M. Schaller, *The American Occupation of Japan*, Oxford University Press, New York, 1985, Chapter 2 and 3.

command of General MacArthur, the Supreme Commander for the Allied Powers (SCAP), Japan attempted to reform by removing the undesirable elements from Japanese society and transforming itself into a liberal parliamentary democracy.

In a process that was initially devised in Washington without SCAP or Japanese input, reforms were targeted at the influences that were thought responsible for Japan's expansionist prewar policies.<sup>5</sup> The original three basic postwar objectives of SCAP were to eliminate all war industries, hinder the future ability of Japan to re-arm and establish a peaceful and democratic Japan. The position of the military was to be severely curtailed in a series of reforms typified by Article 9 of the postwar Constitution, which states that

Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes. In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognised.<sup>6</sup>

The removal of Japan's military capability was to have huge repercussions, especially for its relationship with the United States. The security of Japan was to become chained to the continuing security commitments provided by the US during and after the Occupation.

In another major reform, the position of Emperor, so important to Meiji conceptions of the Japanese people and government, ceased to be that of a figurehead for nationalism or to have any substantial role beyond ceremony in everyday domestic politics. Landowners were forced (though compensated for their loss) to relinquish their land, later to be redistributed to the people under the auspices of SCAP. Initial industrial reforms placed most of their emphasis on fostering the textiles industry, largely due to its distance from former war industries led by the *Zaibatsu* conglomerates.<sup>7</sup> However, these reforms did little to help the Japanese economy recover from the burden that the war had placed on it.

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<sup>5</sup> M. Schaller, *The American Occupation of Japan*, p. 24.

<sup>6</sup> Y. Soeya, "Japan's Dual Identity and the U.S.-Japan Alliance," <http://www.stanford.edu/group/APARC/publications/papers/soeya.pdf>, Accessed 9/2/2000.

<sup>7</sup> W. Borden, *The Pacific Alliance: United States Foreign Economic Policy and Japanese Trade Recovery, 1947-1955*, University of Wisconsin Press, Madison, 1984, p. 73.

Instead, seeing economic growth as the basis of stability in Occupation-controlled Japan, helped engineer a 'reverse course' from 1948 onwards.

US policy hoped to rehabilitate the seriously damaged Japanese economy from a number of major illnesses. Not only had major industrial areas such as Tokyo been decimated by Allied bombing, but the banking system was also flooded by bad debts from the war years. These ills were added to by the loss of Japan's closely integrated colonies, in Korea, Taiwan and Manchuria. Seen in Table 3.1, these well-integrated portions of the former 'inner empire' constituted a crucial addition to Japan's balance of payments in the decade preceding the attack on Pearl Harbour. Their loss affected both the potential markets for exported Japanese goods but also the reliability of supply and the cost of imports, one of the factors that initially led to the push for autarchy.<sup>8</sup>

**Table 3.1: Japan's balance of international trade in the 1930s (millions of ¥)**

	Totals			Trade with the yen bloc (China, Manchuria and Kwantung)			Trade with the world outside the yen bloc		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
1931	1147	1235	-89	221	236	-15	926	1000	-74
1932	1410	1431	-21	276	206	70	1134	1226	-72
1933	1861	1919	-56	411	281	130	1450	1636	-186
1934	2171	2283	-111	520	311	209	1652	1972	-320
1935	2499	2472	27	575	350	225	1924	2122	-198
1936	2693	2764	-71	658	394	264	2035	2370	-335
1937	3175	3783	-608	791	437	354	2384	3346	-962
1938	2690	2663	27	1166	564	602	1524	2099	-575
1939	3576	2918	658	1747	683	1064	1829	2235	-406
1940	3656	3453	203	1867	756	1111	1789	2697	-908
1941	2651	2899	-248	1659	855	804	992	2044	-1052

Source: Japan Ministry of Finance, Custom clearance statistics, 1931-1941 in T. Nakamura, 'Depression, Recovery and War, 1920-1945', in K. Yamamura (ed.), *The Economic Emergence of Modern Japan*, Cambridge University Press, Cambridge, 1997, p. 148.

Another issue with regional implications was the question of Japanese reparations to the region, more importantly, to the US. The policy of no reparations to the US was sold to Congress on the basis of saving US taxpayer funds that would be used to continue aid to Japan until an economic recovery. Before such a recovery was possible, a weak Japan still needed US aid; a hard sell before the intervention of increased Cold War tensions. This

<sup>8</sup> see K. Yamamura, 'Then Came the Great Depression: Japan's Interwar Years', in H. van der Wee (ed.), *The Great Depression Revisited*, Martinus Nijhoff, The Hague, 1972, pp. 182-207.

move to quickly reverse previous policy, driven largely by the Department of Army, met a barrier in the State Department, which understood that much of the international community "still viewed Japan as an imperial aggressor". Japan was expected to pay reparations by those countries it had occupied; indeed, one plan for reparations argued that Japanese industry should be relocated to Southeast Asia to improve the economic balance in the region.<sup>9</sup> The US was worried that the international cooperation required to revive Japanese trade would disintegrate if the 'reverse course' was undertaken. With 'diplomatic language' required to minimise regional fears,<sup>10</sup> concerns of Japan's future war potential were overridden by US interests, with it officially ending the initial reparations program in 1949.<sup>11</sup> As seen later in this chapter, other countries would have to wait for an opportunity to seek recompense for the damage caused.

With the focus on Japanese economic recovery, the US engineered a policy reversal focused on preventing the continued worsening of the economic conditions in Japan. Named after the economist who had accomplished a similar task in West Germany, the 'Dodge Line' was enacted in 1949 to bring Japan's rapid inflation under control, to cut the budget deficit and drastically reduce the number of loans and subsidies paid out by the government.<sup>12</sup> It also contained measures that sought to promote the *zaibatsu* conglomerates (previously targeted for dissolution by SCAP), suppress wages and restart industrial exports.<sup>13</sup> Dodge believed that exports could be best promoted through limiting the domestic purchasing power of Japanese workers, whilst encouraging business to seek

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<sup>9</sup> W. Borden, *The Pacific Alliance*, pp. 65-66, 80. However, as noted by Borden, without drastically increased aid to fund the relocation of this manufacturing capacity to the region, this form of reparations would have had a limited impact on wider Asian development.

<sup>10</sup> W. Borden, *The Pacific Alliance*, p. 77.

<sup>11</sup> W. Borden, *The Pacific Alliance*, p. 78, 81, 83. This did not please the Commonwealth members (Australia, New Zealand, Canada and UK) in the Far Eastern Commission (FEC), the body given the increasingly ceremonial role of setting Occupation policy.

<sup>12</sup> K. Yutaka, 'The Postwar Japanese Economy, 1945-1973', in K. Yamamura (ed.), *The Economic Emergence of Modern Japan*, Cambridge University Press, Cambridge, 1997, p. 167. See a chapter devoted to Dodge in H. Schonberger, *Aftermath of War: Americans and the Remaking of Japan*.

<sup>13</sup> M. Schaller, "Reversals of Fortune: The United States, Japan, And China, 1948-51 and 1969-73", [[http://www.fas.harvard.edu/~asiactr/TR\\_Schaller.htm](http://www.fas.harvard.edu/~asiactr/TR_Schaller.htm)], Accessed 13/5/2001 and W. Borden, *The Pacific Alliance*, pp. 92-95.

foreign markets for expansion.<sup>14</sup> This entailed the re-inclusion of politicians and bureaucrats previously associated with the military governments of the 1930s and early 1940s.<sup>15</sup> In many cases, it reunited colleagues from the war years and enabled a rapid reconnection of the previous collaborative business/government arrangement, which was the engine of Japan's modern economic development. In keeping with this, labour unions were curtailed and enterprise unionism became the accepted form of Japanese labour organisation.

The Dodge Plan ultimately worked well, helping to stabilise both the yen's value and asset appreciation within the economy. However, the plan carried large job and business losses with it; the severe cutbacks domestically and the lack of international demand for Japan's exports caused increasing social and economic problems, including deflation.<sup>16</sup> It was not until the beginning of Korean War that Japan's economic prospects brightened, a circumstance similar to that of the US before the Second World War. The North's attack on South Korea escalated the Cold War and enabled Secretary of State Dean Acheson to push increased military budgets and foreign aid programs with military components through Congress.

Korean intervention spurred a flood of congressional appropriations to rearm Europe and the United States and to finance the French reconquest of Indochina. Moreover, it touched off a massive speculative buying boom by business, transforming the world's buyers market to a seller's market and helping Japan and Europe sell their surplus production.<sup>17</sup>

For Japan, this signalled the beginning of its recovery. For the US, Japan's increased growth meant that otherwise neglected aspects of the Occupation, namely strategic affairs, could now be addressed.

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<sup>14</sup> W. Borden, *The Pacific Alliance*, p. 92.

<sup>15</sup> S. Ogawa, 'The Difficulty of Apology: Japan's struggle with Memory and Guilt', *Harvard International Review*, 22(3), Fall 2000, p. 43.

<sup>16</sup> D. B. Smith, *Japan since 1945: The Rise of an Economic Superpower*, p. 66 and W. Borden, *The Pacific Alliance*, pp. 98-101. An improving US economy and a diminishing 'dollar gap' in early 1950 helped to allay fears of deflation, as did an implicit understanding that Japanese businesses were not beyond 'crying wolf' in attempting to gain more concessions.

<sup>17</sup> W. Borden, *The Pacific Alliance*, p. 50.



### ***US interests, Japan's role in the 'Reverse Course'***

From the beginning, ideas of a 'reverse course' were heavily tied to US interests, not only in the region but also globally. Commonly portrayed as a reaction to the victory of Mao Tse-tung's Communist forces in China,<sup>18</sup> the initial reasons behind the Truman administration's changed policy were more about protecting US interests regionally than reformation of the Japanese state per se. This policy was the first major demonstration of the US political, economic and strategic interest in maintaining Japan as a hegemonic supporter. George Kennan, the head of the Policy Planning Staff in the US State Department in the mid/late 1940s, saw Japan as one of five 'power centres of the world', along with the US, UK, USSR and Germany.<sup>19</sup> Hence, the importance of Japan to US global strategic interests was clear, both in terms of strengthening ties to boost the West's geopolitical advantage in the Cold War, as well as in terms of costs if Japan remained weak and isolated after its role in the Second World War. The overriding objective of what came to be known as the 'reverse course' was the generation of a quick economic recovery in Japan rather than the construction of a new Western democracy<sup>20</sup> or a neutral state.<sup>21</sup> From being seen as an experiment in democratisation, "US policy came to focus on Japan's strategic importance – as 'workshop', as critical military base in the 'forward line of defence', as source of industrial war potential, and as potential participant in 'regional self-defence'.<sup>22</sup> There were even candid admissions by Kennan and others that a 'more pleasant' GEACS-like substitute was a preferred option in plans for Japan's postwar role.<sup>23</sup> Japan was now on the frontline of United States attempts to contain the spread of Communism throughout the Asia Pacific, a bulwark against Communism and base for US forces. The forthcoming US-Japan security

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<sup>18</sup> C. Tsuzuki, *The Pursuit of Power in Modern Japan 1825-1995*, p. 364.

<sup>19</sup> Y. Soeya, "Japan's Dual Identity and the US-Japan Alliance."

<sup>20</sup> H. B. Schonberger, *Aftermath of War: Americans and the Remaking of Japan, 1945-1952*, The Kent State University Press, Kent, Ohio, 1989, pp. 4-5.

<sup>21</sup> According to Welfield, MacArthur favoured Japanese neutrality over it becoming a fully-armed US ally in 1950, seeing problems for the US if it joined forces with Russia and/or China. J. Welfield, *An Empire in Eclipse*, p. 29.

<sup>22</sup> J. W. Dower, *Empire and Aftermath: Yoshida Shigeru and the Japanese Experience, 1878-1954*, Harvard University Press, Cambridge, 1979, pp. 369-370.

<sup>23</sup> M. Schaller, "Reversals of Fortune: The United States, Japan, And China, 1948-51 and 1969-73".

alliance was of central importance to both countries: for Japan, it was central to its foreign and defence policies if Japan was to forego the rights of 'normal' states under Article 9; while for the US, it provided a foundation for its postwar diplomacy in East Asia.<sup>24</sup>

In spite of ongoing regional concerns about Japan's legitimacy and the state of the postwar geopolitical order, the US actually hoped that Japan could be persuaded to rearm and share the strategic burden. Constrained by demobilised resources and with a source of military hardware and personnel in Japan, some within the Truman Administration called for Japanese rearmament, despite such an option being precluded in the Constitution. Secretary of State Dulles hoped that the Korean War would force Japan not only to rearm but to abandon any policies that might lead it towards neutrality in the nascent Cold War.<sup>25</sup> With the Korean War boosting Japan's overall economic health, US officials outlined the rationale for Japanese rearmament.

After September 1950, the United States made no attempt to conceal its expectation that a remilitarised Japan would contribute actively to future 'free-world' collective security; Dulles, for example, stated this publicly on September 15, and frequently thereafter. The US-Japan mutual security treaty initialled in September 1951, moreover, explicitly referred to the 'expectation that Japan will increasingly assume responsibility for its own defence against direct and indirect aggression'.<sup>26</sup>

Interestingly, the pressure from Dulles began on June 22<sup>nd</sup> 1950, three days before the Korean War began. General demands on Japan to rearm were set at a force of around 300,000 active personnel (by the early 1950s), supported by modern land, air and naval capabilities. During his vice-presidential visit to East Asia in November 19<sup>th</sup> 1953, where he spoke before the America-Japan Society, Nixon argued that Article 9 was "a mistake".<sup>27</sup> Later in the 1950s, it was briefly thought by US planners that Japan should consider maintaining an indigenous nuclear capability. In the late 1960s, during Nixon's presidency, he and his National Security Adviser Henry Kissinger reiterated these ideas in private discussions within the administration and elsewhere.<sup>28</sup>

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<sup>24</sup> J. Welfield, 'Some Diplomatic and Strategic Aspects...', p. 1.

<sup>25</sup> W. Borden, *The Pacific Alliance*, pp. 143-144.

<sup>26</sup> J. Dower, *Empire and Aftermath*, pp. 385-386.

<sup>27</sup> J. Dower, *Empire and Aftermath*, p. 464.

<sup>28</sup> M. Schaller, "Reversals of Fortune: The United States, Japan, And China, 1948-51 and 1969-73".

Whilst strongly anti-communist themselves, Japan's political leaders had no desire to fight the limitations placed on military potential by the constitution and a pacifist domestic population. Japanese policy came to be guided by the policies of the then prime minister, who saw Japan following Article 9 to the letter for the foreseeable future, allowing government resources to be focused on the all important task of economic development. In what became a regular occurrence, Japanese leaders noted the difficulty to achieve this role within the constraints of its new Constitution and its precarious position in regional international relations. Yoshida, in a typical rebuttal of the US argument that successive prime ministers would use, replied with a number of contrary arguments: that Japan was a new paragon of peace; that Japan could not afford the expense; that Japan's people could start a revolution if Japan rearmed; that reconstituted military forces could revert to their pre-war exertion of power over democracy; and the real possibility that a rearmed Japan might put Japan's trade with the wider Asia Pacific region at risk, undermining US attempts to improve regional economic performance.<sup>29</sup>

Called the 'Yoshida Doctrine', the success of this doctrine was prefaced on the US alliance taking on the burden of security whilst Japan concentrated on the task of forming a developmental state, albeit with substantial US assistance.<sup>30</sup> Japanese leaders also knew that a reconstruction of its military would not only make its regional diplomacy even more fraught but also leave open the possibility for greater US pressure for continued and increased Japanese involvement in various containment strategies in East Asia. The US would continue to provide strategic deterrence with minimal Japanese assistance for the majority of the next three decades.

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<sup>29</sup> J. Dower, *Empire and Aftermath*, p. 383, 388, 395.

<sup>30</sup> E. Brown, 'Japanese security policy in the post-Cold War era: threat perceptions and strategic options', *Asian Survey*, 34(5), May 1994, p. 430, and J. Tsuchiyama, 'Ironies of Japanese Defence and Disarmament Policy', in T. Inoguchi and P. Jain (eds.), *Japanese Foreign Policy Today: A Reader*, Palgrave, New York, 2000, p. 142.

Despite popular Japanese opposition to rearmament, these self-imposed restrictions did not prevent Japanese factories from building war material, providing the catalyst for Japan's economic recovery.

[T]he war enabled MacArthur and Yoshida to implement their plan to activate idle Japanese arsenals in support of American military activities in Asia...MacArthur cited the Korean War as a threat to the Occupation and invoked his authority to commence 'emergency' procurement of military services and supplies for South Korea. Japan was the most logical source of supply for Korea for three reasons: because of its geographical proximity, because American industry was strained by rearmament orders, and, most critically for Japan, because it could furnish dollar earning markets for Japanese industry.<sup>31</sup>

As Welfield noted, "[t]he conflict in the neighbouring peninsula, Prime Minister Yoshida proclaimed, had been a 'gift of the gods'".<sup>32</sup> Industry was one of the main beneficiaries of the war – the modern-day industrial colossus Toyota was on the verge of bankruptcy before war acquisitions boosted orders and production (the latter boosted by 40 percent).<sup>33</sup> This growth, in turn, through the multiplier effect, spread throughout the Japanese economy. The boom of 1950 and its ongoing ramifications also enabled industrial modernisation and re-organisation to take place, both keys to Japan's postwar export recovery. The struggle to keep up demand by 1951, followed by a drop off in orders by early 1952, led to the Ministry of International Trade and Industry (MITI) approving the re-integration of the former *zaibatsu* networks, renamed *keiretsu*.<sup>34</sup> Through a combination of US policies and regional events, Japan was entrenched as a major supporter of the US strategy in East Asia.

There were other, additional economic US interests on a systemic level. After the Second World War, US policy towards Japan was but a part of a global policy that was dedicated to reducing the 'dollar gap', the huge postwar difference between US exports and imports. The US was in a position whereby it needed to reduce the "domination of the world economy by American producers" otherwise foreign nations would become

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<sup>31</sup> W. Borden, *The Pacific Alliance*, pp. 144-145.

<sup>32</sup> J. Welfield, *An Empire in Eclipse*, p. 48.

<sup>33</sup> W. Borden, *The Pacific Alliance*, pp. 146-147.

<sup>34</sup> W. Borden, *The Pacific Alliance*, p. 149, 164. This measure was aimed at industries involved in steel, textiles, machinery and shipbuilding and at regulating prices and sharing the costs of overproduction.

insolvent vis-à-vis the United States and would be unable to purchase American goods. The US would face economic ruin, given the increase in size of overseas liabilities during its funding of the Allied effort during WW2. After the war, it was only the flow of US foreign aid that enabled US trade to exist. Along with Europe's Marshall Plan, without this aid, it was strongly believed that the world faced another 1930s global depression.<sup>35</sup> The prospect of increasing international protectionism and an economic cleavage between soft and hard currency zones<sup>36</sup> drove US policymakers to favour a multilateral trade policy over imperial trade systems in spite of war fatigue in Congress. However, the stigma attached to the US 'loss of China', coupled with NSC-68 and the Korean War, served to loosen congressional purse strings in favour of actively protecting US interests in East Asia.<sup>37</sup>

This is not to say that US interests were the only interests that determined the desirability of this new focus of Occupational reform. An important part of this growing defence relationship between Japan and the US was the influence of Japanese domestic politics. The 'reverse course' had as much to do with placating Japanese conservatives fearful of economic stagnation in the face of US prohibition of Japanese trade with Mainland China. The changed emphasis in reform efforts aimed to win the allegiance of this powerful domestic group, rather than a reaction to the remote possibility of a Soviet invasion or a Chinese-sponsored revolution in Japan. Very early in the Occupation, it was feared that harsh reforms to Japanese business, bureaucracy and politicians could encourage Japanese dissent, dissent that could lead to rejection of reform efforts and a switch of their support to the Soviets. An increase in labour consciousness and militancy following the labour, police and industrial reforms in these early years of the Occupation led to associated fears of a social revolution.

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<sup>35</sup> W. Borden, *The Pacific Alliance*, pp. 5-6.

<sup>36</sup> Hard currency areas were those able to trade goods that earned them US dollars or were currencies tied to the dollar. Soft currency areas were those unable to earn foreign exchange in dollars and largely traded amongst themselves. The US feared that if the trade between hard and soft currency areas broke down, "it would effectively close off European, African and Asian markets to American manufacturing corporations and food and raw material producers". W. Borden, *The Pacific Alliance*, pp. 7-8.

<sup>37</sup> W. Borden, *The Pacific Alliance*, pp. 8, 9-10, 48-49.

Henceforth, American policy would cater to the whims of Japanese corporations and conservatives...to prevent Japanese accommodation with Soviet Russia and, after 1948, Mao's China. Within a year of surrender, even as international bodies discussed the reform programs, American officials planned to restore the old Japanese order.<sup>38</sup>

Hence, from 1949 to 1951, the US directly aided Japan's economic recovery, continuing this assistance on an indirect basis through the 1950s and becoming crucial in the rapid recovery experienced by Japan during the 1950s and 1960s.<sup>39</sup>

### *Japan's difficult regional reintegration*

The US interest in Japan's role as a supporter of its position in East Asia continued at more or less the same level after the end of the Occupation. The dual signing by Japan of the peace treaty with 48 nations (albeit without Communist states or India included) and the bilateral security treaty with the US in September 1951 completed the domestic and regional elements of the reverse course. Japan followed the US lead in most areas of mutual interest, particularly related to regional stability. In exchange for the "generous peace", its overall foreign policy, such as that towards China, Taiwan and the Communist Bloc, became strongly linked to that of its Pacific 'big brother'. Despite misgivings about the isolation policy towards mainland China, Yoshida and his predecessors maintained a policy approach as consistent as possible with the US.<sup>40</sup> There is also an argument that US interests dictated that Japan would be far more useful ally to the US if it had leverage over Japanese foreign policies. The US-Japan relationship was characterised, even at the time, as "dependent independence".<sup>41</sup> This became clear after the signing of the peace treaty in September 1951, where Dulles promoted the idea of 'economic cooperation' with Japan. Under this arrangement, Japan was offered "economic incentives and dollar gap subsidies

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<sup>38</sup> W. Borden, *The Pacific Alliance*, p. 68.

<sup>39</sup> W. Borden, *The Pacific Alliance*; pp. 4-5.

<sup>40</sup> W. Lafeber, 'Decline of Relations during the Vietnam War', in Akira Iriye and Warren Cohen (eds.), *The United States and Japan in the Postwar World*, University Press of Kentucky, Lexington, 1989, p. 98 and A. Ishii, "A Brief Review of Sino-Japanese Relationships after World War II: Japan Caught between Beijing and Taiwan", [[http://www.fas.harvard.edu/~asiactr/TR\\_Ishii.htm](http://www.fas.harvard.edu/~asiactr/TR_Ishii.htm)], Accessed 13/5/2001. Ishii Akira suggests that Yoshida did not want to isolate either the Kuomintang on Taiwan or the Communists on the mainland. On relations with Mainland China, Yoshida believed that the alliance between the Soviets and Mao Tse-tung would soon breakdown, due to the inherent differences between them. This opinion was shared by George Kennan.

<sup>41</sup> J. W. Dower, *Empire and Aftermath: Yoshida Shigeru and the Japanese Experience, 1878-1954*, Harvard University Press, Cambridge, 1979, pp. 370-371.

in the form of war orders and American sponsorship in Southeast Asia, in return for Japanese adherence to American policies in Asia".<sup>42</sup>

While US and Japanese interests converged in regards to continued US support, both differed not only about the nature of Japan's reintegration with the region but also the nature and method of promoting regional development in the face of competition from Communist Asia. This policy went clearly against Japanese interests, as Yoshida had noted in 1951 that "Red or White, China remains our next-door neighbour. Geography and economic laws will, I believe, prevail in the long run over ideological differences and artificial trade barriers".<sup>43</sup> Japan emphasised the need for US assistance, along the same lines as the Marshall Plan, where economic assistance took precedence over the largely military aid sent up to that point. Yoshida noted that high growth rates for mainland China could be used as a propaganda tool against the West, especially if development in Southeast Asia lagged behind Mao's China.

While the US saw military spending and security as important, Japan wanted greater economic growth to undermine Communism's regional attractiveness. To this end, Japanese negotiators envisaged an annual economic aid package of about \$4 billion, a figure ten times as large as the existing aid donated to the region through the World Bank, US agencies and through the Colombo Plan. Japan sought to augment the Colombo Plan, believing it could become the organisational nucleus for such a regional development program, or alternatively administered through establishment of an 'Asian Payment Union' or an 'Asian Development Fund'. The US response to this was positive but non-committal, in light of the large demands on existing US resources and the lack of regional support for a fund run by Japan.<sup>44</sup> Despite the assurances of Washington, regional

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<sup>42</sup> W. Borden, *The Pacific Alliance*, p. 149 and J. Dower, *Empire and Aftermath*, p. 401, 408. Despite Yoshida's belief in China's overall incompatibility with communism, Japanese interests in China were surpassed by the desire for the alliance with the US. Typical of the policy was the infamous 'Yoshida Letter' (in fact written by Dulles with the approval of and minor alteration by Yoshida), assuring the US that Japan would not sign a bilateral peace treaty with China. It was circulated privately in December 1951 and publicly in mid-January 1952, just before the Senate was to consider the Japanese peace and security treaties.

<sup>43</sup> S. Yoshida, 'Japan and the Crisis in Asia', *Foreign Affairs*, 29(2), January 1951, p. 179.

<sup>44</sup> J. Dower, *Empire and Aftermath*, pp. 476-478 and W. Borden, *The Pacific Alliance*, pp. 216-217.

perceptions of a hastily converted Japan and the prospect of it regaining a leadership position in a US-backed regional order carried little weight in a sceptical and fearful region.

For the US, the recent example of Japan's economic growth in conjunction with the Korean War offered important insights into the area of regional development. Extrapolating the beneficial effects of the Korean War to the region at large, the US believed that the best way to fight Communism and promote economic development was to utilise Japan as a 'workshop'. This role not only inserted Japan as a source of income for these countries through raw materials purchases, but also for armaments production to be channelled to non-communist nations, particularly in Southeast Asia.<sup>45</sup> This policy effectively "killed two birds with one stone", fulfilling both short-term and long-term US economic and strategic goals. It left the East Asian region open to free trade and capitalist economic development whilst preventing the regional spread of instability through communist/nationalist insurgencies,<sup>46</sup> as well as avoiding the potential for Japan to re-open politically sensitive economic links to its former 'inner empire'.<sup>47</sup> To maintain the viability of this vision of regional order, the US used the domino theory to instil a sense of the importance of containment and deterrence, warning against a rapid succession of communist insurgencies aimed at maintaining open markets for Japanese exports and imports. For the US, Japan was the "ultimate domino" within this East Asian Grand Strategy.<sup>48</sup>

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<sup>45</sup> W. Borden, *The Pacific Alliance*, pp. 192-193. Japan's economic survival, according to Acheson and Dulles, was reliant upon the ability of the US to secure Southeast Asian markets for Japan's use, both as a source of imports (raw materials) and exports (manufactured goods).

<sup>46</sup> J. Dower, *Empire and Aftermath*, pp. 425-426, 429. Meetings between Yoshida and Ikeda Hayato (a Yoshida protégé and future Prime Minister) in 1953/54 with senior US officials reinforced the Japanese position, of the crucial importance of economic assistance to fighting regional communist movements.

<sup>47</sup> W. Borden, *The Pacific Alliance*, pp. 109, 120-121, 196 and J. Dower, *Empire and Aftermath*, pp. 281-282. Without this, Japan could be tempted by reopening trade with China and the Communist Block. In the minds of US officials, Japanese capitalism lacked the heritage that suggested that it could not be tempted by the appeal of socialist ideology, a message reinforced by US bureaucrats in their meetings with Yoshida. Following this reasoning, the Truman Administration in July 1951, with the signing of NSC 125, explained that the Pacific needed to be defended as a crucial resource for Japan's industrial reconstruction. It was this document that outlined the US fear of SE Asia falling like a line of dominos.

<sup>48</sup> J. Dower, *Empire and Aftermath*, p. 429 and W. Borden, *The Pacific Alliance*, p. 124.



These plans also had economic benefits as far as the US was concerned but faced hurdles that ultimately changed the scope and nature of the relationship between Japan, US and East Asia. US plans suggested that Japan could pay reparations or export capital to Southeast Asia to boost regional trade, with these funds utilised to purchase goods from the US and Japan, reinvigorating the regional economy, mitigating the dollar shortage, whilst negating the need for the US to expend its own political and economic capital. In a February 1952 memorandum for the US government, entitled "United States-Japan Economic Cooperation in the Post-Treaty Era", Dodge envisaged with other policymakers in Washington that Japan could

serve as a key 'border area in the world-wide clash between communism and democracy'. Ideologically tied to the West and commercially linked to Asia, Japan would deflect 'totalitarian pressures' and counter the communist 'pan-Asiatic movement.' Through Japan, the United States could apply 'tremendous influence over our relations with all of the Orient'. Japan, not China, would assume the role of American proxy in Asia.<sup>49</sup>

The four main points of the plan made it clear that Japan was not going to receive an easy road to recovery and that US programs towards Japan and Southeast Asia were designed with US interests in mind.<sup>50</sup> It is interesting to note that US policy on fostering Japanese involvement in Southeast was partially driven by their concern that Japan could develop a permanent dependency on US aid imports.<sup>51</sup> In the forthcoming chapters, continued US pessimism regarding Japanese future economic prospects is interesting when juxtaposed against the reaction of US political leaders to Japanese success in the 1970s and 1980s.

Yet this and other plans stumbled at a number of hurdles. These frameworks were unable to gain ground as the low level of economic development in Southeast Asia, unresolved reparations claims,<sup>52</sup> suspicions of Japan's motives and a lack of Japanese capital conspired to make the most conservative attempts at regional economic development fail.

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<sup>49</sup> M. Schaller, "Reversals of Fortune: The United States, Japan, And China, 1948-51 and 1969-73".

<sup>50</sup> "Government Loan" file, Box II, Joseph Dodge papers, 1952 cited in J. Dower, *Empire and Aftermath*, p. 426, 429.

<sup>51</sup> H. B. Schonberger, *Aftermath of War: Americans and the Remaking of Japan, 1945-1952*, p. 282.

<sup>52</sup> J. Dower, *Empire and Aftermath*, pp. 456-457. Initial discussions between Japan and the region were so bitter that Ikeda's delegation noted that the claims for reparations were of "an enormous amount". As a result, the first claim that it was able to satisfy was Burma in November 1954.

For instance, the idea of any link with the 'south' seemed puzzling to a number of influential political figures within Japan. Prime Minister Yoshida said of Japan in 1954 that it wanted to trade with 'rich men' rather than 'beggars', alluding to the fact that Southeast Asia could not buy Japanese goods and was therefore useless to Japan's reconstruction.<sup>53</sup> When the inability to trade diminished as a factor, others sought to restrict the usefulness of intra-East Asian trade. Korea was set to be a destination for Japanese exports, as efforts began to rehabilitate the country after its war. But after a disagreement relating to fishing rights and the rights of Korean nationals in Japan, talks on trade were delayed until 1960.<sup>54</sup> Understandably, the US role in pursuing this plan was 'downplayed'<sup>55</sup> in the face of continuing regional sensitivities to an enlarged Japanese role in economic development. US desires for East Asian strategic stability and increased economic growth were not easily reconciled with regional sensitivities to their recent treatment by Japan.<sup>56</sup>

### *Regional role perceptions of Japan*

The US decision to resuscitate, rather than marginalise Japan as an economic and potential strategic power angered and frightened those countries around the Pacific after the damage done during the Second World War. Australia, who had an ongoing fear of Japanese economic power and influence, was unimpressed with their allies' plan to rehabilitate what it saw as a primary threat to its economic, political and cultural security.<sup>57</sup> Countries in East Asia were even more hostile to Japanese recovery, with Nationalist China and The Philippines believing that US policies would again enable Japan to dominate the region. Overall, the policy of Japan as a regional workshop was attacked by Southeast Asian nationalists as being a continuation of Japan's imperial policies in a different guise. Basing the regional economy around supplying Japan with raw materials for manufacturing was

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<sup>53</sup> T. Shiraishi, 'Japan and Southeast Asia', p. 177.

<sup>54</sup> W. Borden, *The Pacific Alliance*, p. 173.

<sup>55</sup> PPS 51, "US Policy towards Southeast Asia", FRUS, 1949, VII, pp. 1128-1130 in W. Borden, *The Pacific Alliance*, p. 122.

<sup>56</sup> W. Borden, *The Pacific Alliance*, p. 108.

<sup>57</sup> See D. Walker, *Anxious Nation: Australia and the rise of Asia 1850-1939*, University of Queensland Press, St. Lucia, Qld., 1999.

tantamount to colonialism, a new version of the GEACS but with the imprimatur of the US. This fear was recognised in studies by the US State Department, where it was acknowledged that such a trading arrangement would keep Southeast Asia "backward and undeveloped".<sup>58</sup> But for the US, this opposition was anathema to them as its interests were in maintaining the viability of a liberal regional economy. Other nations did not have the wide spread interests or ambitions as the US.

For Americans, Japan's supremacy in Asia was inevitable and greatly to be encouraged with lavish funding. To Asians, with the fresh memories of Japanese occupation, Japan's renewed domination was sinister and a threat to their political and economic independence.<sup>59</sup>

Recognising the difficulty of such a diplomatically unpalatable course, US administrations spent much of their regional diplomatic capital trying to persuade Southeast Asia that Japan had been reformed and that their suspicions were unnecessary.<sup>60</sup> Such reassurances fell on sceptical ears and it required the San Francisco system of alliances to gain support for the plan.

A major part of regional protests against US designs for Japan's crucial economic role also lay in differing regional interests. It was not just apparent in the case of what future role Japan should fulfil but in what was the most important economic and strategic issue facing the region. Whilst growing Western fears of successful Communist incursions into Northeast and Southeast Asia during the 1950s drove debate about regional security, these regions themselves were more concerned with colonialism and its continuing regional influence, although the US may have had good reasons to question the strength and nature of Southeast nationalism.<sup>61</sup> These regions were far more interested in developing their own national identities, struggling for sovereignty and the means to speed economic development.

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<sup>58</sup> W. Borden, *The Pacific Alliance*, p. 197.

<sup>59</sup> W. Borden, *The Pacific Alliance*, pp. 78-79.

<sup>60</sup> W. Borden, *The Pacific Alliance*, p. 194.

<sup>61</sup> W. Borden, *The Pacific Alliance*, p. 199.

It also required more than diplomacy to carry out remedial repairs on the relationship between former aggressor and nascent states in the region. Compensation became one of the first hurdles for Japan to clear to renew regional political ties. As Table 3.2 shows, this process was drawn out. Between 1955 and 1967, Japan negotiated reparations agreements with ten East and Southeast Asian countries, transferring about \$1.5 billion in reparations and economic/technical assistance, a figure that was supplemented by loans.<sup>62</sup>

**Table 3.2: Reparation and Grants to East Asia, 1954-1981**

Country	Year of Agreement	Settlement	Payment Period
Burma	1954	\$340 million	1955-1965
Thailand	1955	\$26.7 million	1962-1970
Philippines	1956	\$550 million	1956-1966
Indonesia	1958	\$223 million	1958-1970
Laos	1958	\$2.8 million	1959-1961
Cambodia	1959	\$4.2 million	1959-1961
South Vietnam	1959	\$390 million	1960-1965
South Korea	1965	\$300 million	1965-1975
Singapore	1967	\$8.2 million	1968-1972
Malaysia	1967	\$8.2 million	1968-1972
Micronesia	1969	\$5.9 million	1973-1976
Vietnam	1975	¥8.5 billion (\$23.6 million)	1975-1978
Mongolia	1977	¥5 billion (\$13.8 million)	1977-1981

Source: MITI, *Kokusai Kyoryuku no Genjo to Mondaiten*, 1986, pp. 320-322 in D. Arase, *Buying Power: The Political Economy of Japan's Foreign Aid*, Lynne Rienner, Boulder, 1995, p. 29. Note: Dollar figures created using exchange rate of ¥360 to \$1.

These agreements were intended to improve trade, but overall results were inconsistent. In one of the best outcomes, the agreement with the Philippines led to a five-fold increase in trade within five years of the agreement during the 1950s. However, the main impact of these reparations was to facilitate Japanese business links with regional states and their resources. It is also interesting to note that Japan's reparation plan was carried out between

<sup>62</sup> R. M. Orr, *The Emergence of Japan's Foreign Aid Power*, Columbia University Press, New York, 1990, p. 53 and T. J. Pempel, 'Gulliver in Lilliput: Japan and Asian economic regionalism', *World Policy Journal*, 13(4), Winter 1996/97, p. 17. Interestingly, prior to the San Francisco Peace Conference in September 1951, Burma, Indonesia, the Philippines and South Vietnam had cumulatively asked for \$30 billion in reparations. Yanaga notes that this figure was quickly ruled out. C. Yanaga, *Big Business in Japanese Politics*, Yale University Press, New Haven, 1968, p. 204.

Japanese business and the recipient governments with little formal Japanese government involvement. As Pempel noted, "The bulk of this money was...tied to the purchase of Japanese goods and services thereby opening these markets to Japanese companies... creating important bilateral economic links to Japan".<sup>63</sup> East Asian states may have received compensation, but it was smaller than the \$30 billion the region had hoped for, and was tied to what Japan could reasonably provide. Interestingly, it was the US that pushed the hasty conclusion of reparations, fearing that a drawn out process would only destabilise the Japanese economy, further inflame tensions and hinder US plans to use Japan as a regional 'workshop'.<sup>64</sup>

While the region wrestled with the plan, Japanese support for its role as a regional 'arsenal for democracy' was similarly cool. A 1954 report from the Ministry of Foreign Affairs (MOFA) argued that the policy had failed and was skewed towards the interests of the US rather than Japan. Southeast Asia did not have the purchasing power or achieve the necessary economic growth to buy Japanese manufactured goods, making it difficult for Japanese industries to compete against other manufacturers in the international marketplace.

Japan was undersold in the capital goods market by Germany, in fertiliser by Italy, in textiles by India; it faced British obstruction and competition, reparations snags, trade and exchange controls, quotas, currency inconvertibility and infant industry tariffs. Japan remained the lone industrial nation without a currency bloc to afford the advantages of multilateral trade.<sup>65</sup>

The prevention of trade with China also made Japanese steel more expensive than it otherwise would have been. For instance, although the region could provide enough iron ore, only China had cheap coking coal.<sup>66</sup> This point was made by British diplomats, who, contrary to the US policy of isolation, advised that Japan quickly normalise relations with

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<sup>63</sup> T. J. Pempel, 'Gulliver in Lilliput: Japan and Asian economic regionalism', p. 17.

<sup>64</sup> D. Arase, *Buying Power*, p. 28 and C. Yanaga, *Big Business in Japanese Politics*, p. 213. The US itself paid the Philippines \$525 million in reparations and argued against further claims, as it believed that the US would inevitably end up paying them. Dulles agreed that reparations were needed but emphasised the economic damage that excessive reparations would have on the Japanese economy, including weakening Japan, increasing the likelihood of Communist insurgency, and otherwise upsetting regional stability.

<sup>65</sup> W. Borden, *The Pacific Alliance*, p. 214.

<sup>66</sup> W. Borden, *The Pacific Alliance*, p. 212.

the mainland.<sup>67</sup> With its former empire off limits, its goods either uncompetitive or excluded, Japan was left with few choices.

Japan's failure to gain access to regional markets forced a retrospectively unwelcome historical change from a US perspective. By 1954, Southeast Asia's lack of purchasing power and the uncompetitiveness of its exports drove Japan to specifically target the US market instead.<sup>68</sup> Despite the threat of increased trade protectionism because of increased trade with Japan,<sup>69</sup> the Eisenhower administration allowed such a change, and not just for strategic reasons. Undoubtedly, the US needed to find other Western markets that were able to absorb Japan's goods otherwise Sinophilic Japanese interests would begin to strongly argue for a resumption of trade with China. But, for the 1950s and 1960s, the prime market for Japanese goods was the US, a fact that would haunt US policymakers in later years.

### ***'Miraculous': role perceptions of Japan's postwar economic success***

Whilst concerns about Communist expansionism in East Asia continued throughout this initial postwar period, there were other changes that altered the composition and nature of the regional order and the various perceptions of Japan's role within the region. Of all the factors that drove future analysis of Japan's role, the startling increase in the size and influence of the Japanese economy, far beyond the achievements of the pre-war years, was the most important. All told, the Japanese economy between 1946 and 1976 experienced a 55-fold increase in GDP, leading many observers to ascribe this as a 'miracle' given the earlier pessimism regarding the viability of an isolated and vulnerable archipelago.<sup>70</sup> The speed and the methods by which Japan attained this growth heavily affected the perceptions that the US and East Asia held towards it.

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<sup>67</sup> W. Borden, *The Pacific Alliance*, pp. 204-205. The United Kingdom was forced to compete with Japan in markets where it had enjoyed sizeable privileges previously under the imperial preference system, especially in India. Britain fought for recognition of China, allowing Japan to trade with its former colony. However, its wishes were not particularly important to the US when it was formulating its economic and security policies for East Asia; the emphasis was on enticing Japan into the constraints of the US alliance.

<sup>68</sup> W. Borden, *The Pacific Alliance*, p. 212.

<sup>69</sup> W. Borden, *The Pacific Alliance*, pp. 170-171.

<sup>70</sup> D. B. Smith, *Japan since 1945: The Rise of an Economic Superpower*, p. 85.

An important list of factors allowed Japan to grow at substantial annual rates. These were: high rates of private capital accumulation; the placement of industry on the coast, allowing ocean access, saving on transport and service costs; a high propensity for domestic savings (in part formed by WW2 and "the people's intrinsic propensity to attach high ethical value to thrift"); an industrious, well-educated labour pool with periods of surplus capacity in the workforce to keep labour costs down; an increase in agricultural productivity from the mid-1950s; the 'appropriate' development of industries, with governmental emphasis shifting from light to heavy industry when the demand for heavy industry was increasing rapidly; and an industrial relations system which kept wasted days and industrial disputes to a minimum.<sup>71</sup> SCAP and its reforms made a significant difference to the outlook and structure of Japanese political economy, but the technical skill and tenacity as well as the basic ideologies and inherent factors (including its geographical position, natural allocation of resources) that had driven Japan to industrialise and 'catch-up' with the developed world remained.<sup>72</sup> Much like its efforts of the late 1800s, post 1945 Japan was a country driven to 'catch-up' with the West; economic growth was paramount in order to reconstruct the country, to rebuild national prestige and stave off the threat of communist insurgency.<sup>73</sup> Finally, and arguably most importantly, Japan had the advantage of US economic and strategic support, ranging from easy access to the US market to access to US technology.<sup>74</sup> Without access to a market, Japan's recovery would be entirely different.

As before, the role of the state proved a major component of Japan's economic success, both from a policy perspective and as a source of national identity. Chalmers Johnson argued that the role of the developmental state as perhaps the most convincing

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<sup>71</sup> S. Ichimura, *Political Economy of Japanese and Asian Development*, Springer, Singapore, 1998, pp. 18-24. See also K. Yutaka, 'The Postwar Japanese Economy, 1945-1973', pp. 167-192.

<sup>72</sup> J. Dower, *Japan in War and Peace: Selected Essays*, HarperCollins, London, 1992, especially pp. 9-32.

<sup>73</sup> K. Yutaka, 'The Postwar Japanese Economy, 1945-1973', pp. 198-199.

<sup>74</sup> T. J. Pempel, 'Gulliver in Lilliput: Japan and Asian economic regionalism', p. 15 and R. J. Samuels, 'Reinventing Security: Japan since Meiji', in E. R. Beauchamp (ed.), *Dimensions of Contemporary Japan: A Collection of Essays*, Garland, New York, 1998, p. 8.

argument for the resurgent growth of the Japanese economy during the postwar era.<sup>75</sup> The state's collaborative approach with private businesses to meet state development needs allowed the maximum amount of Japanese capital to be used for wider economic gain. With the creation of the Liberal Democratic Party (LDP) in November 1955, the 'iron triangle' (LDP politicians, bureaucrats and business)<sup>76</sup> relationship became a central feature of Japan's economic model, superficially regarded later by scholars as 'Japan Inc'. Government-sponsored efforts to spur the national consciousness towards economic goals had moved beyond the Meiji catchphrase of *fukoku kyōhei* (rich country, strong military) to the postwar examples *yushutsu shinko* (promote exports) and *kodo seicho* (high-speed growth).<sup>77</sup> It was also this system that inspired other Asian nations to attempt to emulate Japan's success, to varying degrees and success.

If the US saw Japan as a potential partner in its wider strategic interests during the 1950s when Japan was weak and recovering, US expectations of Japanese support did not keep pace with Japan's rapid growth in the 1960s. The substantial and unpredicted economic growth caused many, even those familiar with Japan's sizeable achievements before 1945, to marvel at the rapid transformation of Japan from what was expected to be a dependency of the United States to an economic power in its own right. The talk of a Japanese 'miracle' began with *The Economist* in 1962 printing a two-part essay, spawning a group of books seeking to explain Japan's explosive growth,<sup>78</sup> with some arguing that Japanese methods should be re-exported to improve Western competitiveness. In effect, it argued that Japan had out-competed the West since its fall at the hands of the Allies. Works of this genre

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<sup>75</sup> C. Johnson, *MITI and the Japanese Miracle*, p. 17.

<sup>76</sup> D. B. Smith, *Japan since 1945: The Rise of an Economic Superpower*, pp. 76-78. and H. Takenaka, 'Japan's International Agenda: Structural Adjustments', in Y. Funabashi (ed.), *Japan's International Agenda*, New York University Press, New York, 1994, p. 182. Outside elements of the community, such as consumers or industries that were not represented suffered as a result of this practice.

<sup>77</sup> C. Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, Stanford University Press, Stanford, 1982, p. 20. The image of the developmental state is based on the view that Japan engaged in the process of late industrialisation and as result, it was the state, rather than private companies or individuals, which led the country towards industrialisation as Japan could not wait for the market to naturally develop.

<sup>78</sup> C. Johnson, *MITI and the Japanese Miracle*, p. 3.



included P. B. Stone's *Japan Surges Ahead: The Story of an Economic Miracle* (1969), Herman Kahn's *The Emerging Japanese Superstate* (1970), Hakan Hedberg's *Japan's Revenge* (1972) and Ezra Vogel's *Japan as Number one: Lessons for Americans* (1979).<sup>79</sup>

The figures for this period show the positive economic growth effects of the reverse course and of Japan's concentration on economic growth. In real (Table 3.3) and comparative (Table 3.4) terms, Japan's recovery is highly impressive over a variety of sectors of the economy. Not only that, but it was sustained for more than a decade.

**Table 3.3: Annual Average Rate of Increase of Major Economic Indicators, 1955-1973 (percent)**

	1955-1961	1961-1965	1965-1970	1970-1973
Real GNP	10.7	8.1	12.1	8.8
Production (mining and manufacturing)	17.2	10.1	16.2	8.5
Export (customs, dollar)	13.6	19.0	18.2	24.2
Financial expenses (general accounts)	12.6	16.1	17.1	23.0
Regular Employment (manufacturing)	11.0	4.6	3.1	-0.3
Real Wages (manufacturing)	5.0	3.2	8.8	9.5
Consumer Prices	2.2	6.5	5.5	7.4

Source: T. Seiyama, 'A Radical Interpretation of Postwar Economic Policies', in T. Morris-Suzuki and T. Seiyama (eds.), *Japanese Capitalism Since 1945: Critical Perspectives*, M. E. Sharpe, London, 1989, p. 54.

As can be seen in Table 3.3, Japan achieved close to 10 percent growth in GNP throughout the period 1950-1973. Also impressive was that wage growth was higher than consumer prices/inflation, demonstrating that the recovery not only exhibited growth in exports but also in domestic demand. The figures also show the shift from manufacturing employment to other sections of the economy, beginning the cycle of moving manufacturing to other countries with lower costs that Japanese scholars categorised as the 'flying geese' cycle of economic development.

In this avianisation of the product life cycle, Japan was to be the Asian originator of new industrial sectors. Heading a "flying V" of Asian economic geese, Japan would pull the region forward with its own successes in industrialisation and manufacturing. The other Asian countries would follow Japan's lead and a succession of Asian "geese" would replicate Japan's developmental experiences, and that of the other "geese" ahead of them in formation, all moving steadily forward in their levels of

<sup>79</sup> C. Johnson, *MITI and the Japanese Miracle*, p. 7.

manufacturing sophistication...Hence, as rising labour costs and other factors of production drove Japanese manufacturers out of certain industries, these would be taken over by slightly less sophisticated successors in other Asian countries whose own economic advancements would follow in due course. Over time, a succession of Asian nations would move collectively and in a geese-like formation toward ever more sophisticated levels of development and industrialisation. Japan, of course, would remain the country destined to lead all regional development and would control all leading technologies and industries, but by following Japan's lead along a common trajectory, other countries would quickly benefit.<sup>80</sup>

This argument for the importance of Japanese economic growth to the region held both positive and negative implications for leadership. On the one hand, Japan followed the product cycle, moving out of lower skill and cost to more value-added and complex industries, while these industries found new homes in other East Asian countries. This argument strongly influenced governments in East Asia seeking to emulate Japan's example. On the other hand, it brought with it past memories of the GEACS, given that Akamatsu, the Japanese economist that coined the term, saw Japan maintaining its leading position at the centre of the region, dispensing technology and higher level goods to other states.<sup>81</sup> Economic dependency on Japan became an issue that raised renewed fears of the regional role Japan grew into during the 1960s and 1970s.

**Table 3.4: Rate of Growth of GNP in Selected Countries at Constant Prices (in percent)**

Countries	1950-55	1955-1960	1960-65	1965-70
Austria	7.0	5.2	4.4	5.1
France	4.5	4.2	5.9	5.8
West Germany	9.0	6.0	4.9	4.8
Italy	6.0	5.9	5.1	5.9
Sweden	3.1	3.3	5.4	3.9
United Kingdom	2.6	2.4	3.3	2.4
United States	4.3	2.3	4.9	3.3
Japan	9.1	10.0	10.0	12.1

Source: Bank of International Settlements: *Annual Report* 1962. OECD Statistical Bulletins in S. Okita, *The Developing Economies and Japan*, University of Tokyo Press, Japan, 1980, p. 199.

As Table 3.4 shows, Japan was growing at a sustained rate much in advance of comparable economies before the war. Although some countries in Europe, such as West Germany, were able to attain figures close to this rate of growth over a 5-year period, no country was close to emulating the speed and duration of growth that Japan achieved. This growth had

<sup>80</sup> T. J. Pempel, 'Gulliver in Lilliput: Japan and Asian economic regionalism', pp. 15-16.

<sup>81</sup> See S. Ichimura, *Political Economy of Japanese and Asian Development*, Chapter 3 and R. Vernon, *Sovereignty at Bay: The Multinational Spread of US enterprises*, Basic Books, New York, 1971, pp. 65-75.

serious implications for the US given its centrality to Japan's export-focused developmental plan. Deprived of markets for its manufactured goods in Southeast and Northeast Asia, Japan targeted the US market. In the twenty years after 1945, the United States enjoyed a large trade surplus with Japan as it provided goods and services for the reconstruction after the war. After 1967, as can be seen in Table 3.5, the balance switched in Japan's favour, accruing increasingly larger trade surpluses throughout this period on the back of the success of its manufactured goods. The other major aspect to be noted in these figures is the relative export growth into the US market. The level of Japanese exports into the US only declined in one year (1961), with over two thirds of the years in this period seeing growth over 10 percent. From an official US perspective, rapid Japanese exports were not of concern if US exports to Japan kept the overall trade between the two balanced.

**Table 3.5: US-Japan Merchandise Trade, 1955-73 (millions of US\$)**

Year	US Exports to Japan	Imports from Japan	US Balance with Japan	Annual Growth in Japanese Exports to US (%)
1955	651	432	219	-
1956	905	558	347	22.6
1957	1236	601	635	7.2
1958	845	671	174	10.4
1959	967	1029	-62	34.8
1960	1341	1149	192	10.4
1961	1739	1055	684	-8.9
1962	1415	1358	57	22.3
1963	1711	1498	213	9.3
1964	2009	1768	241	15.3
1965	2080	2414	-334	26.8
1966	2364	2963	-599	18.5
1967	2695	2999	-304	1.2
1968	2954	4054	-1100	26.0
1969	3490	4888	-1398	17.1
1970	4652	5875	-1223	16.8
1971	4055	7259	-3204	19.1
1972	4963	9064	-4101	19.9
1973	8313	9676	-1363	6.3

Source: MOF, *Customs Clearance Statistics*; The Bank of Japan, *Economic Statistics Manual*; US Department of Commerce, *Survey of Current Business* cited in H. Kanemitsu, 'US-Japan Trade Relations, 1955-1982', in Akira Iriye and Warren Cohen (eds.), *The United States and Japan in the Postwar World*, University Press of Kentucky, Lexington, 1989, p. 168.

Yet by the late 1950s, the trade relationship changed to reflect what would become a continuing, seemingly structural trade imbalance between Japan and the US. After accruing surpluses with Japan heretofore, the subsequent switch to large multi-billion dollar deficits

concerned those fearful of the impact that this would have on the overall economic health of US hegemony. It also changed US perceptions of Japan's role, particularly relating to its limited strategic presence. The US sought greater responsibility and burden sharing from an ally that rapidly gained the capability to contribute more to regional economic prosperity and strategic stability.

This rapid change from economic burden to competitor worried policymakers and academics concerned about the wider macroeconomic effects. The change in the bilateral trade balance influenced the US current account deficit, which itself led to the collapse of the fixed exchange rate system that was integral to the Bretton Woods system.<sup>82</sup> By the end of 1974, regional relations and especially the relationship between Japan and the US had undergone a sea change. At the beginning of the period covered in this section (1960), terms such as 'inevitable harmony'<sup>83</sup> were articulated, whilst at the end of the period (1975), analysts saw the 'alliance' as being "a convenient fiction".<sup>84</sup> As a result, the US wanted Japan to take greater responsibility in Southeast Asian economic and strategic affairs, rather than solely concentrating on increasing the bilateral trade surplus with the US.<sup>85</sup> Yet all but one (Kishi) of preceding Prime Ministers after Yoshida followed their predecessor's 'doctrine' in refusing to contribute as much as the Americans wanted. With the effect of Article 9 and postwar pacifism amongst the domestic constituency still strong, Japanese political leaders believed that their interests were best served through minimal defense spending and a concentration on Japan's continued economic development.

What exacerbated US disquiet was Japan's ongoing reluctance to involve itself in the regional role as an active participant in the containment of Communism, particularly to

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<sup>82</sup> R. Leaver, 'Restructuring in the Global Economy: From Pax Americana to Pax Nipponica?', p. 431.

<sup>83</sup> P. Clapp and M. Halperin, 'US Elite Images of Japan: The Postwar Period', in Akira Iriye (ed.), *Mutual Images: Essays in American-Japanese Relations*, Harvard University Press, London, 1975, p. 217. This followed the image of Japan as a country finished with national struggle due to the 'harmonious effect' of The Occupation.

<sup>84</sup> W. Lafeber, 'Decline of Relations during the Vietnam War', p. 96.

<sup>85</sup> W. Lafeber, 'Decline of Relations during the Vietnam War', p. 102.

the US effort in Vietnam.<sup>86</sup> The Vietnam War exemplified the precariousness of reconciling Japan's two roles, a responsible supporter and alliance partner as well as a facilitator of regional development. The war helped Japan export more to the US and the region as US dollars flowed around the region in an effort to win Indochina back from the Communists.<sup>87</sup> As the US noted, a large percentage of Japan's surplus could be traced back to US military procurements, and it therefore desired a greater level of financial support for the US military presence there, especially if US forces in Vietnam were there to protect Japan from Communist expansion.

From the Kennedy to Johnson Administrations, Japan avoided all attempts for it to become involved in The Vietnam War, citing the restrictions that the constitution and domestic opinion placed on its actions.<sup>88</sup> Even when the US pushed for a greater Japanese defence spending, the idea was rejected by Prime Minister Ikeda. Building upon earlier arguments, he argued that Japan had improved its relationship with East Asia because of its low strategic profile within the US-Japan bilateral security treaty. Southeast Asia might look to the US "for its basic military security", but it looked to "Japan to perform a mission in the economic field".<sup>89</sup> Although Japan required the US presence to safeguard its economic and strategic interests, Japan could not take up a greater role in its own defence as neighbouring countries would view this change with suspicion if not hostility at a time when the region's raw materials were increasingly important to Japan's continued economic growth. It was far more important to Japanese national interests to maintaining its consistency with the postwar settlement than pursue an active strategic role linked to US strategic interests.

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<sup>86</sup> W. Lafeber, 'Decline of Relations during the Vietnam War', p. 98.

<sup>87</sup> M. Schaller, *Altered States: The United States and Japan since The Occupation*, Oxford University Press, New York, 1997, pp. 200-202.

<sup>88</sup> M. Schaller, *Altered States: The United States and Japan since The Occupation*, pp. 187-189 and Y. Sato, International Studies Association. "Toward a Non-threatening US-Japan Alliance." *Columbia International Affairs Online*, Columbia University Press, March 1999.

[<https://www.cc.columbia.edu/sec/dlc/ciao/isa/say01/>]. Accessed 21/9/2000.

<sup>89</sup> M. Schaller, *Altered States: The United States and Japan since The Occupation*, p. 186.

Vietnam, like the Korean War before it and the 1990 Gulf War after it, became another instance whereby the US reinforced the role that Japan needed to fulfil under the terms of the alliance. US interests and influence were aimed at Japan's fulfilment of its role's burdens and responsibilities. The vulnerability of its regional position was ably reinforced by the early 1970s in what was to be termed the 'Nixon Shocks'; the reversal of previous US policy isolating Mao Zedong's mainland China. It was this event, more so than any other in the postwar period, that demonstrated the role the US wanted Japan to play in the region and the ramifications for not following US role expectations.

### *The End of an Era: China Policy and the Nixon Shocks*

Japanese economic growth and US economic and strategic stress changed the power balance within the alliance during the 1960s, driving a change of thinking that again highlighted US perceptions of what Japanese leadership should be: Japan should act as a supporter of US economic and strategic interests. During the Nixon Administration, when the relative power of states was high on the agenda, the theme of 'inevitability of conflict' between the US and Japan was increasingly common.<sup>90</sup> It was also thought that 'the war' was still being fought, but along economic lines with its ally as an economic competitor rather than partner.<sup>91</sup> Japan's lack of strategic responsibility drove perceptions of 'free-riding' and the belief that Japan's enhanced economic performance undermined US capability and confidence in its ability to maintain the US sponsored postwar economic and strategic order. The 'Nixon Shocks' – the end of the 'One China' policy and the Bretton Woods system of exchange controls, were the reaction to this fear. With these 'reforms', the US underlined the fragility of Japan's position, inducing Japan to reform its policies so that they conformed more closely to the role of an hegemonic supporter.

As noted earlier in this chapter, Japan's alliance subordinated its foreign policy to the US whilst Japan received a security guarantee and trade assistance. For twenty years after the end of the Occupation, alliance solidarity remained more important to Japan than

the allure of re-establishing commercial and trade links with China, thereby easing the reliance on US aid and markets. During the 1950s, it was the Chinese who sought to undermine and create dissension within the alliance. The links that did evolve between mainland China and Japan were unofficial, pragmatic and remained contingent upon US approval. In 1955, through third parties, Zhou Enlai stated that China would not incite a communist revolution in Japan and that it could be possible to normalise ties between the neighbours before China signed a similar agreement with the US. Later that same year, in the light of diplomatic dialogues between the PRC and US in August 1955, MOFA began to draft proposals to normalise relations with its giant neighbour.<sup>92</sup> Yet these plans came to naught, largely due to US pressure and internal dissent within the LDP.

The status of China and the level of Japan's interaction remained a fraught issue during the 1960s. This difficulty came to the fore during the Kishi Cabinet, which in line with his strong belief in closer ties with the US, took a harder line towards Communist China. The desire to re-establish links with Mao also faced difficulties as the US (and hence Japan) supported Taiwan and Chiang Kai-Shek as the legitimate government of China. As noted earlier, Japan signed a reparations agreement that, despite being negotiated on the basis of only pertaining to Taiwan, came to be perceived during the Kishi Cabinet as covering mainland China as well. The disquiet that this caused halted any attempt to begin normalisation talks, with dialogue only restarting during the Ikeda Cabinet.<sup>93</sup> After 1964, despite ongoing US misgivings about trade between China and Japan, trade between them grew until Japan was China's largest trading partner by 1966. However, anti-Chinese statements and increased military spending during the Sato Cabinet, coupled with the Cultural Revolution in 1966, again put paid to plans to normalise relations.<sup>94</sup>

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<sup>90</sup> P. Clapp and M. Halperin, 'US Elite Images of Japan: The Postwar Period', p. 217.

<sup>91</sup> R. Leaver, 'Restructuring in the Global Economy?', p. 431.

<sup>92</sup> A. Ishii, 'A Brief Review of Sino-Japanese Relationships after World War II'.

<sup>93</sup> A. Ishii, 'A Brief Review of Sino-Japanese Relationships after World War II'.

<sup>94</sup> A. Ishii, 'A Brief Review of Sino-Japanese Relationships after World War II' and M. Schaller, 'Reversals of Fortune: The United States, Japan, And China, 1948-51 and 1969-73'. See also M. Schaller, 'The Nixon Shocks and US-Japan Strategic Relations, 1969-1974', [<http://www.gwu.edu/~nsarchiv/japan/schaller.htm>], Accessed 5/2/2003.

While Japan and China considered increasing the levels of dialogue, US foreign policy towards East Asia underwent substantial change with the induction of the Nixon administration. In the first instance, the decision by Nixon to withdraw ground troops in Indochina (termed the 'Nixon Doctrine') demonstrated that the US was neither willing to subsidise regional economic integration or security. In the face of increasingly negative economic data, it was clear that the US believed that the burden of regional security, both military and economic, should be borne by the countries of the region, including Japan.<sup>95</sup> With Japan accumulating increasingly large bilateral trade surpluses (Table 5) with the US, it was an obvious target for domestic constituents who were increasingly vocal in their attempts to change existing policies. Amongst these groups was American industry, which was beginning to complain in increasingly bitter and recriminating terms at the reversal of economic fortune.

American corporate leaders, such as Edsel B. Ford II and mass magazines complained that the U.S. was on the 'brink of defeat' in a trade war and risked becoming a service economy. Featured articles in *Time*, *Newsweek*, and *Forbes Magazine* during the spring of 1971 all used military and racial terminology to warn of the threat posed by 'Japan, Inc'. *TIME* quoted a 'member of the Nixon Cabinet' as saying: "The Japanese are still fighting the war, only now instead of a shooting war it is an economic war. Their immediate intention is to try to dominate the Pacific and then perhaps the world".<sup>96</sup>

Heightened tensions and perceptions of free riding amongst a US business community used to being globally pre-eminent set an ongoing precedent for US economic policy.

It is interesting to note however, as does Schaller, that even in 1969, Nixon did not have economic concerns on his mind when dealing with Japan, despite Japan's refusal to purchase mid-term US Treasury bonds to defend the weakening US dollar in January 1968.<sup>97</sup> At this stage, tensions related to the issues of Okinawa's sovereignty and the level of Japanese support for the Vietnam War.<sup>98</sup> But it was the growing lack of trust and a

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<sup>95</sup> M. Schaller, "Reversals of Fortune: The United States, Japan, And China, 1948-51 and 1969-73" and J. Welfield, 'Some Diplomatic and Strategic Aspects...', p. 12.

<sup>96</sup> M. Schaller, "Reversals of Fortune: The United States, Japan, And China, 1948-51 and 1969-73".

<sup>97</sup> M. Shibusawa, *Japan and the Asia Pacific Region*, Croom Helm, Beckenham, 1984, pp. 69-71.

<sup>98</sup> M. Schaller, "Reversals of Fortune: The United States, Japan, And China, 1948-51 and 1969-73". Japan wanted sovereignty of the island but the US also wanted to maintain the number and size of its bases. Eventually a compromise was reached in 1972.



perception of shifting interests between Japan and the US that drove Nixon to change two long-established policies. The trigger centred around 'voluntary export restraints' negotiations on exports of Japanese textiles. Despite a casual agreement between Prime Minister Sato and Nixon linking the return of Okinawa to textile quotas, the inability of Sato to prevail over strong opposition from MITI and industry exacerbated Nixon's existing doubts about Japan's ability to act in a manner consistent with a mutually beneficial partnership with the US.<sup>99</sup>

The move to recognise China saw the active introduction of Japan to postwar US foreign policy as a competitor, a position similar to that before the Second World War.<sup>100</sup> There was strong American feeling that Japan was now an economic superpower and relations were now returning to 'normal'; a return to the tense stand-off between the two Pacific powers before 1941. Following a realist perspective, Nixon and Kissinger believed that they could engineer a revised balance of power favourable to US interests by splitting China from the USSR (through normalising US relations with the PRC) and balancing China and Japan against each other. In Nixon and Kissinger's discussions with Mao and the Chinese leadership during the early 1970s, the former were not beyond using the possibility of a Japanese nuclear deterrent to threaten the Chinese and raise implicit Chinese support for the continued existence of the US-Japan alliance.<sup>101</sup>

This first 'shock' to postwar Japanese diplomacy in East Asia was mutually regarded as one of the worst diplomatic incidents that could possibly occur in relations between the two allies. The 'impossible' had been countenanced years earlier.

Asakai Koichiro, Japan's ambassador to Washington in the 1950s, had a recurring dream. He imagined waking to news that the United States abruptly recognised China without informing Japan. This scenario became known in diplomatic circles as 'Asakai's Nightmare'. The events of July 15, 1971 made him seem a visionary. Undersecretary of State U. Alexis Johnson charged that Kissinger's "passion for secrecy, combined with his contempt for the [State] Department and disdain for the

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<sup>99</sup> M. Schaller, "The Nixon Shocks and US-Japan Strategic Relations, 1969-1974".

<sup>100</sup> see A. Iriye, 'Japan as a Competitor, 1895-1917'.

<sup>101</sup> M. Schaller, "The Nixon Shocks and US-Japan Strategic Relations, 1969-1974".

Japanese, threw a devastating wrench into our relations with Japan on the question of China".<sup>102</sup>

The shock not only led to the effective end of Sato's eight-year tenure as Prime Minister but the notification of a substantial change in the relationship between Japan and the United States. Mainland China's recognition may have seriously undermined Japan's faith in the partnership but these were reinforced by some harsh realities. US plans for a five power international balance upset Japan because it thought that it was being prepared for a role that involved rearmament, a reform that undermined domestic consensus and inflamed regional fears of Japanese militarism.<sup>103</sup> Japan could not expect the same level of patronage and tolerance of Japan's Yoshida Doctrine that had otherwise characterised US postwar policy towards Japan.

That Japan could not expect the same favourable postwar treatment was underlined by the second Nixon 'shock'. Fearing that Japanese growth and competition with US businesses would continue at this rapid rate, two major policy shifts were decided upon by Nixon as part of the 'New Economic Policy' (NEP). Firstly, although not entirely related to the US trade position, Nixon withdrew the US from the Bretton Woods system of exchange controls and de-valued the US dollar. These reforms were aided by measures directly targeted at Japanese trade competitiveness. A new appreciated exchange rate (US\$1 to ¥308, instead of ¥360 previously) as well as aggressive textile quotas and surcharges on Japanese imports underlined the new US approach.<sup>104</sup> In the space of a 48 months, US perceptions of Japan had changed to the point where most US foreign and economic policy was aimed at repressing instead of maintaining economic growth in Japan. The US still desired to maintain its regional hegemonic status and was unwilling for Japan to undermine its position. As a policy response to the strategic challenge of Japan's high-speed recovery, it maintained the status quo and Japan's role within the existing alliance structure.

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<sup>102</sup> M. Schaller, "Reversals of Fortune: The United States, Japan, And China, 1948-51 and 1969-73".

<sup>103</sup> R. Leaver, 'Restructuring in the Global Economy?', pp. 431-432.

<sup>104</sup> M. Schaller, "The Nixon Shocks and US-Japan Strategic Relations, 1969-1974". The 10% surcharge affected up to 90% of Japanese imports at that time.

As a result of this, the first major foreign policy differences between Japan and the US occurred, with Japan developing independent, albeit pragmatic, low profile foreign policy to China, Russia, the Middle East and energy.<sup>105</sup>

The implications of its rapid growth also changed Japan's economic and political contact in East and Southeast Asia. After seeking to avoid trade with Southeast Asia because of its lack of development, the harsher treatment it was given by its US target market drove Japanese governments and businesses to reconsider their earlier rejection. Southeast Asia, facing independence and a lack of stability following the ongoing ideological conflict between capitalism and communism, looked to Japan for resources and investment to pursue their own national interests, primarily related to national economic development. But at the same time, with recent history still fresh with images of Japanese exploitation, Southeast Asia remained wary of the threat that a powerful Japan posed for their security. With the US presence through their 'hub and spokes' bilateral security treaties throughout the region calming their fears of Japan's intentions, Southeast and Northeast Asia cooperated and facilitated progress towards the central state goal of stability through economic development.

For capitalist East Asia during the 1960s, the growth that Japan and its developmental state economic model achieved drove their favoured role of Japanese leadership, with Japan's experience of rapid economic growth becoming a developmental model to emulate. That it constituted leadership was a subject that received increasing promotion, not least among Japanese officials themselves, who were eager to demonstrate to their near neighbours that they could be trusted. It also demonstrated to their US allies that it was involved in regional economic development, even if it was not simply following US-preferred interests. The example of Japan's *shido* (guidance) was to play a major part of perceptions on both sides of the Pacific.

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<sup>105</sup> W. Lafeber, 'Decline of Relations during the Vietnam War', pp. 106-108.

## **Southeast Asian role perceptions of Japan (1960-1973)**

As explored earlier in this chapter, the dominant US perception of Japan's role in Southeast Asia was that of a 'benign' form of the Greater East Asian Co-prosperity Sphere; as George Kennan commented, Japan should develop an 'empire to the south'. This followed US desires for Japan to support its regional hegemonic project. Bereft of its pre-Second World War colonies and trade with China, the US surmised that Japan required sources of raw materials and trade from capitalist Asia to survive as a developed country. Japan had not been able to accomplish this initially due to regional 'economic backwardness'. It was only after 1960, following the signing of reparations agreements and the exit of the remaining regional colonial powers, that Japan seriously began its economic expansion through regional investment, aid and trade.

During this period, Japan's policy of economic nationalism and the strong presence of the US in the region led to its relative obscurity in discourses about regional leadership. At various stages and in varying degrees, Japan avoided all talk of increasing its role in the region in anything but an economic role. In the aftermath of the Second World War, as was noted previously, Japan was regarded as a necessary evil for many of the countries in the region who were following the process of decolonisation. Despite the quick and unfinished nature of not only the postwar reconstruction of Japan's government and society but also the hastily concluded postwar regional settlement, the drive for national economic security was much more important, especially given the context of the Cold War in East and Southeast Asia. Both Japan and the region realised that trade and investment could lead to mutual benefits, benefits that both sides were eager to exploit, even if that meant avoiding issues that would continue to undermine regional efforts to increase confidence.

Preferring to let the US take a primary role in regional diplomacy, Japan maintained a low-key approach to foreign policy, aiming to "avoid controversy by not making policy

initiatives overtly" in the alliance or amongst a domestic audience.<sup>106</sup> The domestic inability of political leaders to broach assertive foreign policy with a sceptical public in a divided parliament was supplemented by severe external constraints. Japan had made the decision, based on its own interests, that an alliance with the US was the best means to maintain a "favourable status quo in Southeast Asia and Korea, while at the same time facilitating Japanese economic recovery by permitting a low level of [defence] spending".<sup>107</sup> In foreign policy terms, Japan not only had little scope to pursue popular decisions, such as the removal of US forces from Okinawa, but relations with the region were also largely limited to commercial exchanges.

As US policymakers had foreseen during the Occupation, Southeast Asia became an important source of Japan's postwar raw materials, even if these same policymakers also mistakenly believed that the region would provide the primary market for its manufactured exports.<sup>108</sup> Up to the 1970s, Japan's Asian relationship continued to concentrate heavily on Japanese purchases of raw materials and unfinished products from the region, with Japan exporting light manufactured goods and consumer products in return.<sup>109</sup> Trade and aid became the main avenues for Japan's early involvement with its East and Southeast Asian neighbours. This took the form, with the financial and diplomatic assistance of the US, of Japanese reparations to these countries for costs incurred during the course of the Pacific War. Even at that stage, reparations were tied to Japanese industry, the ability to pay and the US unwillingness to tax any Japanese recovery with substantial regional reparation burdens.

As noted earlier, with guidance and encouragement from the US, it set about creating structures and opportunities to increase its involvement in the region. Since the early 1950s,

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<sup>106</sup> T. Kimura, 'Japan-US Relations in the Asia Pacific Region', in R. L. Grant (ed.), *The Process of Japanese Foreign Policy: Focus on Asia*, Royal Institute of International Affairs, London, 1997, p. 55. Even during its long reign (that was to end in 1993), the LDP faced a Diet with a third of the numbers coming from the Socialist Party, which had diametrically opposed foreign policy objectives.

<sup>107</sup> J. Welfield, 'Some Diplomatic and Strategic Aspects...', p. 23.

<sup>108</sup> Akio Watanabe, 'Southeast Asia in US-Japan Relations', in Akira Iriye and Warren Cohen (eds.), *The United States and Japan in the Postwar World*, University Press of Kentucky, Lexington, 1989, pp. 80-95.

<sup>109</sup> T. J. Pempel, 'Gulliver in Lilliput: Japan and Asian economic regionalism', p. 17.

Japanese bureaucrats had cultivated strong networks with business, facilitating the domestic and regional growth of 'horizontal' groups such as trade associations and bank-centred *keiretsu*, and 'vertical' groups such as supply and distribution *keiretsu*.<sup>110</sup> Both MITI and MOF, arguably the two most influential bureaucracies within Japan, used these networks to spread policies through the domestic economy initially, and then through the regional affiliates of Japanese business networks, without formal announcements of rules or regulations. This became known as 'guidance' or *shido*.<sup>111</sup> Initially, in 1958, it was MITI that drove this process, establishing plans for 'economic cooperation' (trade promotion and resource procurement) that reflected its important role in resource procurement and market analysis; MOF only drew up official aid plans in the early 1970s.

The process of building linkages between Japan and Southeast Asia in particular moved ahead in the early 1960s as demands for raw materials to feed Japan's manufacturing industries increased. With initial US guidance and encouragement, Japan created frameworks to increase its involvement in the region. The first of these, the Overseas Economic Cooperation Fund (OECF) and the Overseas Technical Cooperation Agency (later renamed the Japan Investment Cooperation Agency or JICA) were both formed in 1961. These groups coordinated Japanese business interests and governmental assistance, helping to create and develop opportunities between Japanese funding, expertise and regional resources. From this period onwards, strong relationships grew between Japanese politicians, Japan's private sector and their respective counterparts in each country in Southeast Asia, to facilitate trade and the accessibility of these resources.<sup>112</sup> In doing so, it fulfilled the Japanese interest in attaining suppliers and markets for its goods and services, whilst for Southeast Asia, this relationship developed resources and skills that could be used to further their central aim of economic development. Despite the complimentary

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<sup>110</sup> For a greater explanation of keiretsu structures, see M. Gerlach, 'Keiretsu Organisation in the Japanese Economy: Analysis and Trade Implications', in C. Johnson, L. Tyson and J. Zyman (eds.), *Politics and Productivity: The Real Story of Why Japan Works*, Ballinger, Cambridge, MA., 1989, pp. 141-174.

<sup>111</sup> W. Hatch, "Exporting the State: Japanese Administrative and Financial Guidance in Asia," [<http://www.pro.harvard.edu/abstracts/083/083001HatchWalte.html>], Accessed 7/7/2000.

benefits, Shiraishi notes that, although mutually beneficial, these relationships were skewed in favour of particular groups within the individual countries, a feature that caused increasing problems at home and abroad. As Chapter 3.6 shows, these problems re-emerged as a problem in the 1990s.

These frameworks were just one element of increasing Japanese government interest in the region. With the Nixon Doctrine and partial disengagement from East Asia, the influence of Japanese government aid grew, leading it to become the region's principal aid donor. Generally following the earlier precedent set by the reparations agreements, Japanese aid was generally tied to the development and expansion of markets for Japanese companies. Since approximately 70 percent of Japanese aid budget was allocated to East and Southeast Asia, aid reinforced the effort to accelerate the value of bilateral trade links. This trade was added to by the second of Nixon's Shocks. With the yen's significant appreciation following the end of Bretton Woods system of exchange controls, Foreign Direct Investment (FDI) gradually became more important than simple trade, leading to the regional expansion of Japanese subsidiaries that directly developed needed resources and made use of lower operating costs. As a result of this, Southeast Asia in particular became a more important and increasingly integrated component in Japan's economy, first as a supplier and now as a market.<sup>113</sup>

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<sup>112</sup> T. Shiraishi, 'Japan and Southeast Asia', p. 179.

<sup>113</sup> T. J. Pempel, 'Gulliver in Lilliput: Japan and Asian economic regionalism', pp. 17-18.

**Table 3.6: Intra-ASEAN Trade, 1964-1972 (as percentage of Overall Trade)**

	1966	1967	1968	1969	1970	1971	1972
<b>Exports to ASEAN</b>							
Malaysia	2.2	2.4	24.6	23.9	24.7	26.7	26.4
Philippines	1.0	2.7	1.9	4.8	1.2	2.0	1.5
Singapore	7.6	6.3	17.3	15.6	25.4	26.5	12.1
Thailand	19.7	21.5	19	17.4	14.9	15.2	15.1
Indonesia	5.8	4.1	18.1	16.8	24.7	17.7	9.7
<b>Imports from ASEAN</b>							
Malaysia	8.2	9.2	19.5	18.3	15.7	14.3	16.3
Philippines	5.6	5.2	5.5	4.6	5.2	6.1	4.6
Singapore	7.7	7.1	6.3	4.8	21.0	19.2	10.7
Thailand	5.3	3.0	3.0	3.1	3.3	3.3	3.3
Indonesia	4.4	7.0	3.3	7.1	7.3	1.5	1.5

Source: *IMF Direction of Trade Statistics*, various issues.

Note: figures for 1966-1968 are based on incomplete data.

This growing trade relationship came at a time when Southeast Asia and its developmental plans were under threat, both as a result of colonial investment ending as well as the continual threat of communist insurgency. Given their roles as sources of primary resources for their colonial masters, regional countries lacked not only major manufacturing industries but also regional trade complementarities after independence. As Table 6 demonstrates, apart from Malaysia and Singapore, regional trade relied not only on external markets for exports but also for the majority of imports.

Japan was to provide a sought-after avenue for economic growth and development that the region were to accept, despite continuing misgivings. As can be seen in Table 3.7, the share of Japanese exports to and imports from the region remained relatively constant, a considerable increase given that Japan's total exports and imports increased by nearly seven and six times respectively. In the case of Indonesia, Japan's increasing use of its oil resources is particularly apparent, even before the price rises associated with the OPEC crisis.



**Table 3.7: Proportion of Japanese exports to ASEAN, 1963-1973**

Year	Japan's total exports	Japan's total Imports	Singapore		Malaysia		Thailand		Indonesia		Philippines	
			Proportion of total Japanese exports to Singapore	Proportion of total Japanese imports from Singapore	Proportion of total Japanese exports to Malaysia	Proportion of total Japanese imports from Malaysia	Proportion of total Japanese exports to Thailand	Proportion of total Japanese imports from Thailand	Proportion of total Japanese exports to Indonesia	Proportion of total Japanese imports from Indonesia	Proportion of total Japanese exports to Philippines	Proportion of total Japanese imports from Philippines
1963	5449.1	6739.3	2.06%	0.33%	0.93%	2.71%	3.32%	1.35%	1.81%	1.52%	2.76%	3.42%
1964	6678.1	7947.4	n/a	n/a	n/a	n/a	3.20%	1.65%	1.81%	1.61%	2.86%	2.82%
1965	8456.2	8167.8	n/a	n/a	n/a	n/a	2.59%	1.60%	2.42%	1.82%	2.84%	3.11%
1966	9779	9522.5	1.41%	0.52%	0.97%	3.16%	3.08%	1.48%	1.21%	1.84%	2.85%	3.41%
1967	10440.1	11661.2	1.53%	0.31%	0.84%	2.87%	3.27%	1.37%	1.49%	1.67%	3.48%	3.21%
1968	12999.2	12984.5	1.61%	0.48%	0.80%	2.64%	2.81%	1.13%	1.13%	1.94%	3.16%	3.07%
1969	15994.1	15025.6	1.95%	0.44%	0.84%	2.72%	2.71%	1.11%	1.47%	2.64%	2.97%	3.12%
1970	19317.9	18881.1	2.19%	0.46%	0.86%	2.22%	2.33%	1.00%	1.63%	3.37%	2.35%	2.83%
1971	24080.1	19705.4	2.11%	0.58%	0.85%	1.89%	1.85%	1.17%	1.88%	4.33%	1.93%	2.61%
1972	28657.3	23481.8	2.46%	0.51%	0.92%	1.69%	1.82%	1.07%	2.15%	5.11%	1.60%	2.00%
1973	37007.9	38323.2	2.52%	0.58%	1.21%	2.03%	1.95%	1.03%	2.45%	5.78%	1.68%	2.15%

Source: IMF *Direction of Trade Statistics*, various issues.

The other major element of the economic relationship that drove regional perceptions of Japan's role was investment. Along with the rapid increase in trade came a growing amount of Foreign Direct Investment (FDI), following a brief hiatus after the Second World War. Before the war, most early Japanese investment was concerned with setting up the service sectors that could facilitate the raw materials trade required to fuel industrialisation. Trading companies (*sogo shosha*) were the first enterprises to be set up, and most of the initial investment was used to open outlets in China, moving outwards to the US, India and East Asia.<sup>114</sup> Along with the trading companies, regional transportation networks (based on shipping but including railways and roads) and banks were established in China and East Asia.<sup>115</sup> Postwar, these were the first companies to return.

However, given the need for domestic investment to speed Japan's industrial recovery, heavy government scrutiny faced all applications for investment overseas to avoid 'reverse importing'.<sup>116</sup> FDI was allowed to export goods and import raw materials, but even these spheres were heavily regulated by both MITI and MOF.<sup>117</sup> As Table 3.8 demonstrates, only limited amounts of FDI existed through 1951-1960 and a large proportion of this investment was in the US.

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<sup>114</sup> M. Mason, 'The Origins and Evolution of Japanese Direct Investment in East Asia', in D. J. Encarnation (ed.), *Japanese Multinationals in Asia: Regional Operations in Comparative Perspective*, Oxford University Press, New York, 1999, pp. 18-19.

<sup>115</sup> M. Mason, 'The Origins and Evolution of Japanese Direct Investment in East Asia', p. 20.

<sup>116</sup> The practice of setting up subsidiaries in other countries, and then exporting back to the host country of the main company to take advantage of price and regulatory differences.

<sup>117</sup> M. Mason, 'The Origins and Evolution of Japanese Direct Investment in East Asia', p. 29.

**Table 8: Direction of Japanese FDI, 1951-1969 (in millions of US\$)**

	No. of projects	Total FDI Amount	Investment in Nth America	Investment in Asia
1951-1956	295	45	75.02	36.38
1957	72	34		
1958	78	65		
1959	123	54		
1960	151	94	13.23	19.16
1961	133	164	13.82	28.43
1962	179	99	16.37	24.04
1963	223	128	52.67	26.31
1964	194	121	27.36	30.73
1965	209	157	44.12	35.70
1966	253	227	108.62	28.77
1967	306	232	57.12	50.74
1968	382	552	185.72	71.44
1969	560	647	131.0	210.0
Total	3158	2619	723.0 (27.6% of total FDI)	560.0 (21% of total FDI)

Sources: Japanese Ministry of Finance and Foreign Department, Bank of Japan in K. Hamada, 'Japanese Investment Abroad', in P. Drysdale (ed.), *Direct Foreign Investment in Asia and the Pacific*, Australian National University Press, Canberra, 1972, p. 174 and 176.

The figures show, as noted earlier in this chapter, that East Asia as a whole was of secondary importance to the US as an area to invest. As Mason observes, the majority of regional investment went on developing primary industries, material that was then exported back to Japan for further processing. Only \$13 million was invested in East Asian manufacturing during the period 1951-1960, a figure that increased markedly to \$81 million during the 1960s.<sup>118</sup> Although small, this Japanese investment was welcomed, particularly in the light of the reduced role that the US would soon have in the region after the Nixon Shocks of 1972.

These significant increases in FDI growth during the 1970s were partly as a result of the Japanese government partially deregulating the FDI process of permission in 1969 in response to domestic and US pressure. During 1971, businesses acquired the ability to invest offshore without needing permission, regardless of the financial size of the investment. The growing investment offshore was well-timed considering the imminent collapse of the Bretton Woods regime and associated yen devaluation, rising wages paid to domestic labour, and the liberalisation of investment regimes in China, Indonesia and

<sup>118</sup> M. Mason, 'The Origins and Evolution of Japanese Direct Investment in East Asia', p. 30.

Vietnam. These factors all combined to make the domestic economy less competitive compared to other regional economies. They also encouraged the migration of labour-intensive industries into neighbouring countries such as South Korea, Taiwan, Hong Kong, and eventually into those that comprised ASEAN.<sup>119</sup>

With the rapid increase in FDI and trade to the region, Japan began to rival if not surpass the US as the region's most important economic hub. The synergy in development and industrial development between Japan and East Asia began to be seen as more than just a postwar recovery. It was during this time that the regional perception of Japan's role as a regional facilitator of development were formed. Now that Japan had recovered from its postwar malaise, there was greater interest in the long-running debates (seen in Chapter 2) over what role Japan should have in East Asia. This debate was more than helped along by Japanese economists and politicians who not only pushed for greater economic integration between the North and South of the Pacific but also saw developmental similarities between Japan and the rest of the region. However, with Japan's economic success came the fear that Japan would use its renewed strength to restart its earlier imperialistic policies. The tenuous balance that developed between the region and Japan during this period contained equal parts of opportunity and suspicion. Regional politicians realised that Japan could act as a regional developmental catalyst, or it could dominate the region economically in a manner it was unable to achieve militarily in the 1940s.

Japan was conscious of this fear and the limitations on its regional diplomacy, attempting to utilise multilateralism and common interests to leverage regional consensus on regional development and security. Japanese policymakers and economists such as Kojima Kiyoshi and Okita Saburo promoted the idea of greater regional collaboration through initiatives such as the Pacific Free Trade Area (PAFTA), an effort that saw market

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<sup>119</sup> M. Mason, 'The Origins and Evolution of Japanese Direct Investment in East Asia', p. 31.

liberalisation as a way of deriving larger developmental gains from regional trade.<sup>120</sup> It was thought that such a policy would not only increase the price competitiveness of Japanese goods produced in the region and destined ultimately for the US market, but also speed regional economic development through the logic of free trade. This was highly ambitious considering that, with the exception of the Association of South East Asian Nations (ASEAN) and the Asia Development Bank (ADB) which were both formed in 1967, there were few formal regional linkages of any solidity. Even security-based multilateral organisations such as the South East Asian Treaty Organisation (SEATO) fell foul of Southeast Asia's fear of great power dominance and intra-regional differences/conflict.

Another aspect of Japan's perceived regional role remains an area of interest, and was again initially self generated. During the 1960s, Japanese scholars saw the East Asian development following the same general economic developmental path as Japan, described earlier in this chapter.<sup>121</sup> This assumption that led to the construction of the 'flying geese' model of economic development. This idea, theorised by Akamatsu Kaname, followed a similar path to the GEACS, albeit a mercantile version of the model constructed with Japan at the centre of the region.<sup>122</sup> His work was subsequently updated and linked into the context of the PAFTA by Kojima during the 1970s, with a similar construct called the 'catching-up product cycle'.<sup>123</sup>

Despite its limitations (see Chapter 6), theories such as this formed an image of Japan as a economic partner to the region and more importantly, a partner responsible for regional economic affairs. Much like the *zaibatsu*, in this arrangement of states Japan could be the holding company, giving 'guidance' to other states at various levels of the regional

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<sup>120</sup> J. Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, Cambridge University Press, Cambridge, 2001, p. 51 and H. Soesastro, 'Pacific Economic Cooperation: the history of an idea', in P. Drysdale and R. Garnaut (eds.), *Asia Pacific Regionalism*, Harper, Sydney, 1994, p. 79.

<sup>121</sup> S. Ichimura, *Political Economy of Japanese and Asian Development*, p. 35.

<sup>122</sup> H. Soesastro, 'Pacific Economic Cooperation: the history of an idea', p. 78. Before World War 2, most Japanese intellectuals and leaders accepted a regionally based, Japan-centric model of economic development for Asia.

<sup>123</sup> T. J. Pempel, 'Gulliver in Lilliput: Japan and Asian economic regionalism', p. 15. See also M. Bernard and J. Ravenhill, 'Beyond Product Cycles and Flying Geese: Regionalisation, Hierarchy and the Industrialisation of East Asia', *World Politics*, 47(2), January 1995, pp. 171-209.

supply chain. The growth of the Japan-East Asia economic relationship and the movement of industrial development in line with its assessment of the product cycle supported the theory and gave the perception of Japan's leading regional role an empirical basis.

That is not to say that the wider region was comfortable with the rapid rise of the former autarch. This change in its relative economic strength within the region posed problems for Japan's bilateral relationships with the region. During the visits of Prime Minister Tanaka to the region during 1972-74, large scale rioting occurred throughout the region. Contrary to its own perceptions of its role and its ignorance of regional opinion, Japan was not seen as a benevolent or friendly neighbour, with its occupation still keenly felt. What added to this negative regional reaction was the behaviour of Japanese businessmen and their companies, who were increasingly perceived as arrogant, amoral and greedy. As Yanaga argues, Japan's involvement in Southeast Asia was heavily influenced by Japanese big business. That it was these *keiretsu*, who along with the US, persuaded reluctant Japanese governments to sign the earlier reparations agreements did not make their role any more acceptable.<sup>124</sup> Businesses and the export of goods were seriously affected, with Thailand boycotting some Japanese goods during 1972.<sup>125</sup> This primarily student protest quickly spread to the rest of Southeast Asia. One of the main factors blamed for this upsurge of tension was the increasingly large trade surpluses that Japan attained in bilateral trade. Within Thailand in particular, the increasing 'infiltration' of Japanese consumer goods was reaching a politically unacceptable saturation point.

Except for a few years of Occupation during World War Two, Japan's presence in Thailand and in Southeast Asia had never been more pervasive, and what was most disturbing was that there seemed to be no way to reduce it...One student wryly commented that even the anti Japanese posters which they were busy distributing were made of Japanese paper, and were printed by Japanese printing presses, using Japanese ink.<sup>126</sup>

Student protest was supplemented by implicit government support, believing that economic concessions could be gained from Japan. Subsequently, Yasuhiro Nakasone, as

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<sup>124</sup> C. Yanaga, *Big Business in Japanese Politics*, Chapter 8.

<sup>125</sup> S. Okita, *The Developing Countries and Japan*, p. 264.

<sup>126</sup> M. Shibusawa, *Japan and the Asia Pacific Region*, pp. 73-74.

Minister for MITI, travelled to the region to placate the region and offer remedies.

Southeast Asia nonetheless remained frustrated at the lack of imports that Japan was prepared to accept from the region. This argument offering an explanation for the tension, however, is not borne out by the figures.

**Table 3.9: Japan's Balance of Trade with ASEAN-5 (Millions of US\$)**

Year	Singapore	Malaysia	Thailand	Indonesia	Philippines
1966	88.8	-206	159.9	-56.8	-46.7
1967	124.2	-246.6	181	-39.8	-11.6
1968	147.5	-238.9	218.5	-105.3	13.1
1969	246.6	-273.5	266.5	-161.6	7.5
1970	336.5	-252.4	259.6	-320.8	-79.8
1971	395	-168.3	215.7	-400.6	-48.1
1972	584.9	-131.4	270.4	-584.6	-11.8
1973	707.8	-328.1	327.4	-1308.5	-200.5

Source: IMF, *Direction of Trade Statistics*, various issues.

As Table 3.9 demonstrates, Japan profited substantially from bilateral trade with the region, but only with Thailand and Singapore. For Indonesia, Malaysia and to a lesser extent The Philippines, they all enjoyed sizeable trade surpluses with Japan's consumption of Indonesian oil increasingly apparent during the 1970s. Hence, in regards to Indonesia, Shibusawa noted that the unrest there during Tanaka's visit was more a cause of internal opposition to President Suharto than anti-Japanese sentiment.<sup>127</sup> Overall, whilst benefiting from Japan's desire for specific raw materials, the region as whole was not nearly as successful in penetrating Japan's domestic market.

The ongoing regional hostility towards Japan was a poisonous state of affairs for a country that sought to increase its economic prosperity and security within the region as the US reduced its role. Japan could not expect to succeed in improving its and the region's economic prospects unless the underlying political relations between Japan and the region were rebuilt. Through the initiatives pursued initially by Tanaka and then through Fukuda, Japan attempted to achieve the construction of a regional 'partnership', where they could fulfil a role in each other's requirements for secure development. This step, after the rapid normalisation process following the Second World War and the even hastier reparations

<sup>127</sup> M. Shibusawa, *Japan and the Asia Pacific Region*, p. 76.

process, was a necessary one, although it ultimately proved unsuccessful in halting regional perceptions of Japanese economic exploitation.

### **Conclusion**

After World War Two, Japan had become a protectorate of the United States; the perception of it as a diminished and weakened nation was strong, both popularly and within government. Yet this was a perception that required scrutiny in the aftermath of the Occupation and the rapid growth that was to follow in the late 1950s. Douglas MacArthur II, the US Ambassador to Japan during the Treaty Crisis of 1960, advised the then president elect John F. Kennedy to "view Japan as an equal, whom we respect and not as a formerly occupied country that we expect to follow along in our wake".<sup>128</sup> US policy followed the Ambassador's advice in a number of respects, perceiving Japan as a crucial supporter of US hegemony in East Asia, through the stationing of US troops in Japan, by its economic recovery (with possible rearmament) and by the potential for Japan to become a regional 'workshop'. This role was not only driven by US self interest in maintaining a strong geopolitical containment line against perceived expansionary Communist forces on the Asian mainland, but also by the belief that a strong Japan could help keep non-Communist East Asia in the Western sphere of influence. When Japan began to refuse to take on some of the elements that the US defined for this supporting role, the increasing and primarily economic tensions drove relations to a postwar low during the Nixon Administration. The convenient role that the US had apportioned to Japan no longer reflected the new realities of increasing dependence between the two Pacific partners – but the perception remained nonetheless.

If the US sought a reflection of what a new alliance and responsibilities would entail, Japan was of no help, stuck as it was in a continuing debate about Japan's precarious position between East and West. Emblematic of this was Hori Shigeru, the LDP secretary

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<sup>128</sup> MacArthur to Department of State, Dec. 16, 1960, FRUS 1958-60, 18, pp. 413-23 cited in M. Schaller, *Altered States: The United States and Japan since The Occupation*, p. 162.



general in December 1971, who told a gathering of LDP members that Pax Americana was at an end and that Japan needed to move on. And as such, "the world had 'ceased to revolve around an American axis' and 'entered a tri-polar, or a five polar era". Nevertheless Hori noted that, for Japan, friendship with the US remained 'vital'. It was necessary to consolidate this relationship even further 'to promote our development and prosperity'. Yet at the same time, it was "necessary for us to recognise, once again, that Japan is an Asian nation".<sup>129</sup> The passivity with which Japan followed the Yoshida Doctrine's singular adherence to economic affairs and avoided political confrontation offered few opportunities to recast the relationship in more pragmatic terms. Japan, with its increasingly healthy economic position contrasting to the economic problems facing the US, faced new claims that Japan could become more responsible for the existing health of the hegemonic system established by the US. If even policymakers did not see succession as likely, calls for Japan to carry the burden of increased responsibility and leadership became increasingly strong once the US incumbent stumbled under the weight of its self-defined responsibilities. However, similar calls for an increased military role for Japan in East Asia were unmistakably absent.

As mentioned earlier, the change in regional economic and political power in the aftermath of the Second World War created a new dynamic. Even with Japan losing its previous colonial territories and restrictions on its ability to threaten the region with military force, its quest for regional autarchy cast a heavy pall over regional relations. From the early postwar dialogues, fears of Japan revisiting to its imperial past in the future continued unabated. Three elements – the reparations agreements, the process of independence and the struggle for state sovereignty – all worked towards increasing ties between Japan and the wider region. Whilst still wary about Japanese rearmament, regional perceptions saw a leadership role for it through aiding economic development. In this goal, both had mutual interests. Both sought increased regional security in the face of potential

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<sup>129</sup> M. Schaller, *Altered States: The United States and Japan since The Occupation*, pp. 241-242.

communist insurgency and greater economic cooperation, boosting state strength and capacity. Japan needed raw materials and a market for manufactured goods while the region wanted investment and markets for its goods. Whilst relations were mutually beneficial, the increasing size and visibility of Japanese economic influence still brought back memories of pre-war autarchy. It would be the task of Japan to mitigate these fears during the next period, which is the subject matter of Chapter 4.