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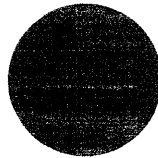

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Eric Heginbotham and Richard J. Samuels

MITJP#96-22
Center for International Studies
Massachusetts Institute of Technology

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Distributed Courtesy of the
MIT Japan Program

Science • Technology • Management

Center for International Studies
Massachusetts Institute of Technology
Room E38-7th Floor
Cambridge, MA 02139

phone: 617-253-2839
fax: 617-258-7432

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Mercantile Realism and Japanese Foreign Policy*

Eric Heginbotham and Richard J. Samuels

I. Introduction

Japanese foreign policy studies, like Japanese (and other area) studies generally, rarely address larger theoretical currents in the social sciences. Analysts of Japanese foreign affairs have tended to produce either narrowly focused institutional or sectoral studies, such as accounts of the trade or the aid bureaucracies, or monographs on Japan's bilateral relations with other regional or Western states.[1] As a consequence, analyses of Japanese foreign policy are often excessively descriptive and fail to even address the question of whether a larger strategic calculus might inform and lend consistency to Japanese foreign policy. In this chapter, we try to avoid these problems by examining the broad outline of Japanese foreign policy against two realist theories of international relations.[2] We conclude that although Japanese foreign policy is not consistent with the precepts of *structural realism*, which is the dominant US theory of international relations today, it is consistent with what we describe as *mercantile realism.*

In the second section of this paper we systematically test Japanese foreign policy against predictions consistent with the theory of structural realism. We find that Japanese foreign policy poses a number of problems for the structural realist theory of international relations. First,

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* This paper was originally prepared for the Olin Institute Conference on "Realism and International Relations after the Cold War," Cambridge, MA December 1995 and is forthcoming as a chapter in Michael Mastanduno and Ethan Kapstein, eds. Realism After the Cold War. The authors gratefully acknowledge the thoughtful critiques of earlier drafts of this essay by Joseph Grieco, Chalmers Johnson, Iain Johnston, Chikako Kawakatsu Ueki, Michael Mastanduno, Randall Schweller, Christopher Twomey, and Stephen Van Evera.

[1] See, for example, the essays in two recent compendia on Japanese foreign policy: Curtis, ed. (1993) and Funabashi, ed. (1994). Exceptions are Inoguchi (1991) and Johnson (1993).

[2] In responding to this question posed by our editors, we test only realist assumptions. As we suggest throughout this essay, subsequent analysis may demonstrate the utility of liberalism, second image, and other competiting perspectives.

structural realists frequently suggest that in cases where economic and military interests cannot be pursued simultaneously, the threat of war will also lead each state to subordinate its economic interests to the dictates of maximizing military security. Yet, despite the dramatic growth of defense budgets across the East Asian region, Japan has adopted a long-term defense plan that will *reduce* the size of its military force structure and lock in those reductions for a decade or more. Second, structural realism posits that concerns over relative gains and dependence on goods vital to national defense will convince most leaders to limit the scope of their state's economic engagement with those states deemed to represent the most imminent military threats. Yet, despite the fact that China is Japan's most important potential military challenger, Japan has shown limited sensitivity towards the distribution of relative economic gains from its trade with China. In fact, Japan has become China's largest trading partner (aside from Hong Kong, which acts as a base from which the products of other nations are reexported into or from China) and serves as that country's largest supplier of bilateral and multilateral aid. Japan has been far more sensitive to relative gains from trade and investment in its dealings with the US and the states of Western Europe, despite the fact that the former is Japan's most important military ally and the latter are distant, democratic, and demographically small in comparison with Japan.

Rejecting structural realism as an adequate explanation for Japanese behavior, however, is not to reject all realist-inspired explanations. The third section of this paper examines claims made by Japanese academics and policy-makers who assign economic and technological power primacy in calculations of national security. From those ideas and others, we generate predictions consistent with what we term "mercantile realism" and test its predictions against observed Japanese foreign policy. Our conclusion is that Japanese foreign policy has been more consistent with this variant of realism than it is with structural realism.

The final section of this paper seeks to explain the origins of Japanese strategy, to show how it is manifest in Japanese institutions, and to assesses the likelihood of change. We argue that Japanese grand strategy today is largely consistent with that developed in the 19th century,

when Japanese survival depended on the rapid acquisition of foreign technology and the modernization of its industrial base. Security choices are still frequently justified by technological and economic priorities, particularly by the nurturance of domestic producers and the acquisition, diffusion, and indigenization of foreign technology. To say that Japanese strategic preferences have remained relatively constant over the last hundred years is not to suggest that there has been no change. The destruction of Japanese militarism and the hobbling of the state's military bureaucracy has made the military motivation for economic development less pronounced. The effect, however, has not been to diminish the emphasis on technological nurturance or industrial power, but rather to free economic policy-makers from the burdens of military competition and make purely economic security issues primary.

As Iain Johnston notes, the strategic preferences of states can differ considerably and those of single states can be enduring:

> "strategic preferences are rooted in the early or formative experiences of the state, and are influenced to some degree by the philosophical, political, cultural, and cognitive characteristics of the state and its elite....The weight of historical experiences and historically-rooted strategic preferences tends to constrain responses to changes in the 'objective' strategic environment, thus affecting strategic choices in unique ways. If strategic culture changes, it does so slowly, lagging behind changes in 'objective' conditions."[3]

If Japanese policy elites are, in fact, constrained by such a "strategic culture," we should not expect Japanese strategic preferences to change dramatically. Despite significant sentiment for change, Japanese elites are still drawn toward the pursuit of techno-economic values.

II. Structural Realism and Japanese Foreign Policy

Structural realism makes a set of assumptions: states are the key actors in international relations; they interact in an anarchic environment devoid of rules and enforcers; and, as a

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[3] Johnston (1995: 34).

consequence of anarchy, much of their behavior is shaped by the possibility of war and the necessity of preparing to deter or defeat military challengers. The threat of war leads each state to maintain its own defense capabilities and to form loose alliances whenever possible with states which share common defense interests. Although there is disagreement among realists about foreign policy predictions that derive from the theory, the following are broadly accepted.

1. *States tend to balance against military threats, not bandwagon with them.* Structural realists argue that states balance against power. Kenneth Waltz writes that "balancing, not bandwagoning, is the behavior induced by the system.....Secondary states, if they are free to choose, flock to the weaker side; for it is the stronger side that threatens them."[4] In seeking to explain why some alliances become far more powerful than their opposite numbers, Stephen Walt proposed an important modification, suggesting that "states balance against threats rather than against power alone. Although the distribution of power is an extremely important factor, the level of threat is also affected by geographic proximity, offensive capabilities, and perceived intentions."[5]

2. *States prefer to maintain independent military capabilities.* Although states will form lose military alliances in order to balance against primary threats, the facts of international anarchy will lead states to guarantee themselves against the possibility of defection by allies. Whenever possible, states will therefore maintain a full array of military forces, even when that requires maintaining redundant assets.

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[4] Waltz (1979: 126).

[5] Walt (1987: 5). We should note that although some realists see bandwagoning as relatively more common than do Waltz or Walt, the more defensive variant of realism represents the common American realist view. For two modern perspectives which view bandwagoning as relatively more common, see Zakaria (1992) or Schweller (1994). Others who view defensive behavior as more common include Robert Jervis (1978), Barry Posen (1991), Steven Van Evera (forthcoming), and Joseph Grieco (1988).

3. *Powerful states are more prone to follow predictions #1 and #2 than weak states.* Waltz' propositions about the relative stability or instability of international systems are based on the number of poles--or large states--in the system. Large states are, he says, "at once limited by their situations and able to act to affect them."[6] Whereas the only hope of survival for small states may lie in allegiance to larger neighbors, great powers are free to balance, either internally or externally, against potential threats. Walt is more explicit in his treatment of this subject: "In general, the weaker the state, the more likely it is to bandwagon rather than balance. This situation occurs because weak states add little to the strength of a defensive coalition but incur the wrath of the more threatening states nonetheless."[7]

Contemporary realists have been largely silent on economic issues and on how economic and military security concerns relate to one another. The following propositions capture the most salient observations that have made on the subject.

4. *States will be highly sensitive to the relative economic gains of other states they consider military threats.* There is general agreement among realists that less trade will occur than is rational from a classical economic standpoint for two reasons related to military security.[8] First, trade may benefit one partner relatively more than the other. Given that economic gains can be used to generate military power, the state that gains less from trade will trade less in order to avoid an adverse shift in the balance of military power. Second, trade involves specialization of labor between states. Specialization makes states dependent for certain products on others. Because dependence may leave states vulnerable, they will limit or manage trade. Realists have

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[6] Waltz (1979: 134).

[7] Walt (1987: 29). A classic example ocurred in June 1940, when, to the surprise and dismay of both Churchill and Roosevelt, Mussolini opted to bandwagon with Hitler joined Germany's attack on France. See Hughes (1965: 10-11).

[8] This rationale can be found in Waltz (1979: 104-107). Also see the chapter in this volume by Randall Schweller. For realist critiques of institutionalism which make similar points, see Grieco (1988), especially pp. 497-500; and Mearsheimer (1994: 21).

had a harder time explaining why trade does occur. Some have suggested that the trade inhibiting effects of the differential benefits from trade will be muted within alliances. Alliance partners care less about each other's gains than about gains made by states from a competing alliance. The absolute gains of the alliance members will thus represent relative gains for the alliance as a whole against competing alliances.[9]

5. *The greater the perceived military threat to a state, the more a state will pay to maintain an alliance.* Within a military alliance the share of the costs will be affected by the relative dependence of the states involved.[10] When there is a substantial difference between the dependence of the parties, the more dependent will pay costs in order to entangle its neighbor and to reduce the likelihood of abandonment. (Frequently, though not always, the dependence of the weaker power for direct military support is offset by the dependence that stronger power has on the continued existence of the weaker to ensure that the balance of aggregate power is not overturned.)

Testing Structural Realism against Japan's Cold War Foreign Policy. The crushing defeat suffered by Japan during the Second World War knocked Japan cleanly out of the great power ranks. Japan's economy and military power were destroyed, and its territory was occupied. Japan had little choice but to enter into a military alliance with the United States. That alliance was, however, fully compatible with the goal established by Prime Minister Yoshida Shigeru of

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[9] Gowa (1994: 53) proposes that "free trade is more likely within than across alliances." Grieco (1988: 501) also argues that "the level of k [sensitivity to gaps in the payoffs of trade] will be greater if a state's partner is a long-term adversary rather than a long-time ally." Stein (1984: 364-367) makes two points consistent with this notion. First, free trade systems have never been global. They are always subsystemic, excluding a major bloc of the world's states. Second, British trade policies during the 19th Century, often said to be a function of either a benign world view or simple economic hegemony, were in important cases designed to cultivate political allies. See also Snyder (1994).

[10] See Snyder (1994: 471-472). Dependence is a function of "(1) a state's need for assistance in war as a function of the extent to which its military capability falls short of its potential adversary's capability; (2) its partner's capacity to supply the assistance; (3) the state's degree of conflict and tension with the adversary; and (4) the state's realignment alternatives."

rebuilding the Japanese economy behind the protective shield of American military power. Within the alliance Japan did not maintain a fully capable or autonomous military force and did relatively little to contribute militarily to the effort to balance Soviet power. But those limitations on Japan's military forces were also consistent with Yoshida's strategy of avoiding any commitment which might slow economic reconstruction. When John Foster Dulles tried to pressure Japan to expand its National Security Force from 110,000 men to 350,000 men, Yoshida refused, fearing that if Japan's forces were larger than absolutely necessary to defend Japan, the US would ask it to send forces to Korea.[11] In 1952, when MITI and business leaders pressed Yoshida to use the arms industry as the locomotive for postwar reconstruction, he declined, siding instead with the Ministry of Finance and the banks' preference for nurturing the commercial economy.

As an American ally, Japan enjoyed unreciprocated access to US markets for industrial products and investment. Japan's Foreign Investment of Law of 1950 and other controls effectively excluded US products and capital from the Japanese market. As Japan began to relax legal restrictions, its bureaucrats and business leaders cooperated to erect a broad array of new non-tariff barriers designed to limit foreign investment and imports. These measures included quantitative restrictions (mainly on agricultural products), administrative guidance to discourage imports, the application of custom rules to hinder imports, the restriction of import permits to Japanese importers, the use of standards set with domestic producers that differed substantially from those accepted abroad, collusive and non-transparent bidding practices for public procurement contracts, and finally, a commitment to undergird 'structurally depressed industries' in ways that prevented or discouraged imports.[12] Not only did Japan benefit from access to US markets, but it also benefited from US influence in Europe, notably pressure forcing the British and the French to accept Japanese entry into the new GATT organization. Thus, Japan sacrificed

[11] Dower (1979: 388-389).

[12] Lincoln (1990: 15) provides a full analytical summary of Japanese non-tariff barriers. For a discussion of measures to discourage foreign investment, see Mason (1992).

relatively little, and may in fact have gained much, from alliance efforts to contain the Soviet Union during the Cold War. While it was certainly not a completely "free ride," it *was* a cheap and profitable one for Japan.

Neither Japanese economic policy nor its military policy during the Cold War was clearly at odds with the predictions of structural realism outlined above. Japan did join an alliance which worked to balance against the Soviet Union, which it regarded as its primary military threat [prediction #1]. Although Japan failed to maintain a well-rounded and independent defense force and did not expend significant resources to maintain its alliance connections, this too is not necessarily inconsistent with structural realist theory. Relatively weak powers, as Japan was throughout the 1950's and 1960's, are not predicted to balance as actively as more powerful states [prediction #3]. Moreover, the willingness of states to assume the economic leadership of an alliance will, according to structural realist theory, depend on the relative degree of threat faced by the alliance partners and on the relative size of their economies [prediction #5]. The US felt that it was engaged in a life or death struggle with the Soviet Union and that US allies on the periphery of the Eurasian landmass were particularly important, since their defection might tip the global balance in favor of the Soviet Union.[13] There was, therefore, little chance that the US would object too strenuously to limited free-riding by allies. Certainly, there was little possibility that it would actually defect from its alliance commitments.

The importance that US policy-makers attached to Japan as a military ally by US is borne out by the 1952 comments of a government official who wrote that

> "The most highly industrialized country in the Far East must remain outside the Soviet orbit if there is to be a free Asia, and to this end U.S. policy should be directed by whatsoever means are necessary, military or economic, to assist in the establishment of political tranquillity and economic betterment in all of free Asia...and until it is clear that Japan can stand firmly on its own feet, the United States must of necessity lend support,

[13] Not only was this the stated rationale for the system of alliances the US put together to execute its policy of containment, but it also had a great deal of plausibility. While the US maintained decisive nuclear superiority through the mid-1960's and naval superiority throughout the Cold War, the Soviet Union maintained superior ground forces for much of the period.

even to the extent of providing an unrestricted market for such Japanese goods as American consumers find attractive."[14]

The size of the US economy during the first decades of the Cold War offset the disproportionate costs the US paid for underwriting a free trade system within the alliance.[15] The strength of US commitment was not lost on Japanese officials. They were so confident of US support that they felt little need to reassure the US of their own commitment or to coax additional statements of US resolve. To the contrary, Japanese officials frequently played the alliance card to secure economic concessions. In 1966, for example, Japanese officials warned that continued US pressure over Texas Instrument's attempts to enter Japan could slow the more general process of capital liberalization and harm the overall US-Japan relationship. An editorial in the Nihon Keizai Shimbun even suggested that "American failure to 'understand' Japanese treatment of Texas Instruments and similar foreign direct investment cases might endanger Japan's support for US security policies."[16]

As realism would predict for weak states, when the U.S. commitment seemed to wane during the 1970's with Richard Nixon's proclamation of the Guam Doctrine, Japan flirted briefly with a less aligned policy under the banner of "omnidirectionality". Once the Americans reaffirmed the alliance and once the risks of omnidirectionality became obvious, however, Japan's commitment to the security partnership strengthened. Japan responded to American pressure on military burden sharing during the 1980's by incrementally expanding the roles and missions of its armed forces.[17] At the same time, Japanese strategists developed the notion of

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[14] Cohen (1952: 89).

[15] In 1953, the US accounted for nearly half of world manufactures, and its GNP was over ten times that of Japan.

[16] Mason (1992: 183).

[17] In 1976, the Miki Cabinet adopted the National Defense Program Outline, which established long-term equipment goals for the Self-Defense Forces (SDF). Under these, Japanese forces were to become heavier and more capable. The highest profile expansion of roles and missions came with the extension of Japan's sea-lane defense responsibilities under Suzuki-Reagan accord in 1981. Japan was given responsibility for the sea-lane out to 1,000 miles from its coasts. The Maritime Self-Defense Forces were organized into four modern anti-submarine flotillas. In 1984, it was integrated for the first time with the US fleet for the RIMPAC training exercises. Though less heralded, Japan's Ground Self-Defense Forces (GSDF) also took on a more conventional look, moved away from guerilla war-fighting doctrines, and began to train with US forces stationed in Japan. In 1987 the Japanese defense budget exceeded 1% of Japanese GNP for the first time since that limit was imposed in 1976. Breaking the 1%

"Comprehensive Security," by which military, economic, and associated resource issues could be accommodated simultaneously.

But while Japanese behavior during the Cold War, was not necessarily at odds with the predictions of structural realism, it hardly provides decisive validation of the theory. Structural realism only claims to explain with any degree of reliability the behavior of large states. The idea that weak states will be *less* inclined to balance against threats by forming alliances and generating additional military resources serves more as a caveat to the general theory than as a primary prediction. Few structural realists would suggest that a state which refuses to mobilize more than a tiny fraction of its GNP or available manpower for defense or one which structures its armed forces to provide auxiliary integrated services to those of an ally (rather than autonomous, well-rounded national defense capabilities) provides compelling evidence buttressing structural realism.

Perhaps more to the point, it would be difficult to describe Japan in the latter decades of the Cold War as a weak state or one without options in the great power game. By the early 1980's Japan's economy had surpassed that of the Soviet Union. While its military capabilities were tiny in comparison with those of the Soviet's at the end of the Cold War, Japan's military weakness was a result of state policy, not resource limitations. Japan had become very rich, and could easily have become very strong as well. Yet despite the rise of Japanese industrial and financial power and despite the fact that Japan could have turned itself into a military great power, Japanese foreign policy changed relatively little during the 1970's and 1980's.

In 1970 Herman Kahn suggested that Japan should be viewed as an "emerging superstate" and offered a set of realist predictions for the future. Kahn predicted that:

> ". . . if annual growth rates continue at about current levels and the Japanese attain the kind of economic and technological stature that some (including myself) think they will,

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barrier was more symbolic than real, however, and defense spending has remained pegged to GNP since 1976. On the incrementalism of Japanese defense budgets, see Kendell (1993) and Matsuyama et. al. (1993).

> most Japanese will almost inevitably feel that Japan has the right and duty to achieve full superpower status and that this means possessing a substantial nuclear establishment."[18]

Events proved Kahn wrong. Japan did not become a nuclear power during the 1970's, and it constrained its military power throughout the Cold War and well into the 1990's. It did not aspire to superpower status, at least in the traditional sense of that term. If structural realism did not capture fully Japan's Cold War dynamics, what of its utility *after* the Cold War?

Testing Structural Realism Against Japan's post-Cold War Foreign Policy Realist theory predicts that Japan faces a difficult dilemma in the post-Cold War period. The U.S. has lost much of its strategic and economic motivation for maintaining its global alliance system. With the collapse of the Soviet Union and the implosion of the Russian economy, U.S. GNP is now 15 times greater than Russia's. Moreover, there now exists a new barrier of states unfriendly to Russian expansion between Russia and Western Europe. Despite Chinese economic growth, the U.S. economy also remains 11 times larger than China's economy.[19] Neither China nor Russia could mount a credible direct military threat to the United States in the next ten or fifteen years. Nor could either conquer the Eurasian land mass. Even after reducing defense spending to just over four percent of GNP, the U.S. military budget remains over five times as large as that of any other single state, and larger than the next ten largest military budgets combined. At the same time, the U.S. share of the world economy has declined from around 40% in 1950 to around 25% today. Hence, the U.S. is less able to reap the rewards of the free trade system that its military alliance system facilitates.

Given reduced military threats and the relative slippage of American economic strength over time, U.S. foreign policy elites have become more inclined to reexamine the logic, structure, and costs of U.S. alliance commitments. Militarily, the United States is more inclined to evaluate the need for and costs of maintaining forward deployed US forces on a continuous basis.

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[18]Kahn (1970: 165).

[19] GNP figures are from the World Bank (1994: 166-7).

The U.S. has reduced the number of forward deployed military personnel in Western Europe, where the threat has receded most dramatically, from over 300,000 in 1989 to approximately 100,000 today. U.S. forces have been withdrawn entirely from the Philippines, where the US was asked to pay a larger sum for basing rights. Economically, the U.S. has taken a far more aggressive approach to promoting its own exports, and it has shown less willingness to tolerate discriminatory trade practices by its allies.[20] In its dealings with Japan, it has used the threat of economic sanctions under the Super 301 legislation in an attempt to leverage trade concessions; it has openly manipulated exchange rates to apply pressure directly on Japanese export-oriented firms; and its officials have, for the first time, hinted that there the health of current security arrangements depend on Japanese willingness to bargain in good faith on the economic front.[21]

While America's global military situation has improved considerably, the regional situation confronting Japan in East Asia has, if anything, become more threatening. First, the situation on the Korean peninsula remains unstable. North Korean missiles are now within range of Japan, and there is fear that those missiles could carry nuclear warheads in the near future. Moreover, although the presence of 50,000 U.S. troops in South Korea is reassuring to Japan, these troops may not remain in place after unification. South Korean military technological and military strength and a history of uneasy Korean-Japanese relations may make a unified Korean peninsula even more a threat to Japan than North Korea is currently.

Despite the passage of time since the Japanese occupation of Korea, anti-Japanese sentiments in South Korea have not diminished. To the contrary, the latest annual survey of Korean attitudes shows that a record 69% of Koreans responded that they "hate" Japan, while only 6% responded that they "like" Japan.[22] These feelings help explain why a novel by a little-

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[20] On the increased assertiveness of U.S. economic policy, see the essay in this volume by Michael Mastanduno.
[21] DoD (1995).
[22] Asahi Shimbun (July 29, 1995: 1). A survey done in seven major East Asian cities showed that while a majority of the people interviewed in Southeast Asia (Bangkok, Manila, Singapore, and Jakarta) responded that "Japan had become a country which could be trusted," those in Seoul, Beijing, and Shanghai responded that it had not. Asahi Shimbun (August 13, 1995).

known author about a Korean nuclear attack on Japan sold two million copies in its first ten months in 1993 and why the popularity of President Kim Yong-Sam rose 10% in 1994 after he ordered the destruction of the National Museum in Seoul, a structure originally built to house Japanese occupation authorities.[23]

In this general atmosphere of distrust, defense officials in both countries view their neighbors across the Tsushima Straits warily. The South Korean navy has grown faster than any other in the region in the last ten years, and much of the rhetoric justifying the fleet suggests that the Japanese navy is the competitor.[24] Unresolved territorial disputes also continue to affect the relationship. Recently, the Japanese extension of 200 mile fishing and mining rights has given increased prominence to the demarcation of islands and waterways. In February 1996, South Korea conducted naval and air exercises around the island of Tokdo (known as Takeshima in Japan) in order to counter Japanese claims to the island.[25] Given all of these problems, it should not be surprising that some Japanese military analysts view Korea as a threat and the growing South Korean rapprochement with Chinese as laden with political and even military significance.[26] Should China and South Korea (or a unified Korea) ever become military allies, China's raw industrial power and South Korean military technology would make a formidable (and threatening) combination.[27]

Nor has the threat from Russia receded as far from the Pacific as it has from Europe. For one thing, although Russia no longer physically borders Western Europe, its borders remain unchanged in the Far East. Due to a lack of resources and maintenance problems, Russia's Far Eastern fleet is largely restricted to port. But it still represents a potentially powerful force in the region and occasionally makes its presence felt. In response to Chinese piracy, the Russians

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[23] Kuroda (1994).
[24] The official South Korean Defense White Paper listed Japan as a potential military threat in 1992. Under U.S. pressure, explicit references were deleted in later years.
[25] New York Times (February 15, 1996: 5).
[26] See, for example, Butei (1992).
[27] For a series of official and unofficial public statements about the these threats from Korea, see Foreign Broadcast Information Service, ed. Foreign Media Note (August 12, 1993).

dispatched an escorted cruiser through the Tsushima Straits into the East China Sea in 1993.[28] Attacks against merchants ships in the area quickly ceased. More importantly, if the Russian economy recovers, the entire fleet, as well as the Far Eastern airforce, could be brought up to operational readiness. This has historical precedence, as Japanese strategists are well aware.[29] Given the political uncertainties in Moscow, and the persistent possibility that nationalists could someday gain control of the government, Russia too represents a potential military threat to Japan.

While the latent threats from the volatile Korean peninsula and the Russian Far East are considerable, the growth of Chinese power looms as Japan's greatest strategic problem. Although Chinese military forces are, relatively speaking, less capable than those maintained by the Soviet Union during the Cold War, China, unlike the old Soviet Union, is located entirely in Asia and sits between Japan Southeast Asia, Japan's most important sources of raw materials and her fastest growing markets for investment and finished products. Chinese antipathy towards Japan, which dates from Japanese imperial rule, has made Japan a favorite target of China's propaganda efforts and threat literature. The efforts of the Chinese leadership to solidify their crumbling position through the conscious use of threat inflation and nationalist symbols includes the depiction of Japan, with U.S. backing, as a power bent on regional hegemony.[30] Japan has unresolved territorial disputes with China, similar to those it has with Korea, over the ownership of the Senkaku islands (called the Daiyu islands in Chinese). Finally, domestic problems in China (including a very uncertain succession to Deng Xiaoping) have made China an unpredictable neighbor. Conservatives in the military have, for example, pushed Jiang Zemin and other national leaders towards a very confrontational stance on Taiwan. In early 1996 China

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[28] FBIS-EAS (August 19, 1993: 3).

[29] According to Foreign Media Note (August 12, 1993), a military analyst Goro Saito, pointed out in Gunji Kenkyu (May 93) that Moscow had recovered from the chaos of the Russian Revolution to field formidable Soviet forces in Siberia and the Maritime Province and argued that Japanese need "to learn from history the risk of Japan's northern threat recovering." p. 2.

[30] For Chinese propaganda towards Japan, see Asahi Shimbun (September 14, 1995). On the larger effort to inspire nationalism, see Far Eastern Economic Review (November 9, 1995: 21 - 26).

made it clear that it had completed contingency plans for an assault on Taiwan, should the latter depart from the "One China" policy and declare independence.[31] This combination of growing Chinese power, historically based antipathy, unresolved territorial problems, and unpredictable international behavior makes China a potentially worrisome military adversary.

Japan has two options consistent with structural realism for dealing with the security challenges it currently faces. First, it could develop the balanced conventional (and perhaps nuclear) forces necessary to balance against regional threats independent of US assistance and could seek military allies among the minor and mid-sized powers of the region, particularly in Southeast Asia. Alternatively, Japan could work to maintain the US-Japan alliance by finding ways to offset the decline in US alliance motivation. This could be done by redefining the alliance so that it could address more US regional interests than does the current alliance; it could be done by shouldering a greater portion of military responsibilities within the existing framework; or it could be done by being more forthcoming on trade and investment issues, which, with the end of the Cold War, may assume ever greater importance for US policy-makers. Regardless of which of these strategies it pursues, we should expect that Japan should, in the current context, exhibit great sensitivity to the distribution of gains through trade between China and itself.

The preliminary record indicates that although Japan has taken some measures to redeploy its forces into defense positions opposite China, it is not yet prepared to take the measures that would be necessary to balance against China independent of US assistance. Neither has it attempted to minimize the possibility of US defection by providing a new rationale for the alliance or by compensating for flagging US motivation. Finally, it most decidedly has shown little sensitivity to the problem of relative gains from trade between itself and China.

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[31] New York Times (January 22, 1996).

To be sure, Japanese military forces are being shifted southward, and in some ways remodeled, to counter Chinese power.[32] Demonstrations of Japanese concern have included the dispatch of Maritime Self-Defense Forces (MSDF) vessels to the disputed Senkaku islands, the use of Maritime Safety Agency vessels to apprehend "pirates," and political appeals for China to justify its military buildup and make their activities more transparent to outside observers.[33] In response to public pressure from Okinawan citizens, Japanese officials have negotiated with the American military for the reduction of base-sizes and the reversion of some areas. Yet they have at the same time negotiated with the Okinawan local government for the construction of entirely new facilities for Japanese P-3 anti-submarine warfare aircraft. They are also deploying Japanese combat units to the island for the first time.[34] Mobility will be enhanced with the addition of an amphibious assault ship which will be both twice the size of any Japanese naval vessel built since WWII and, after minor modifications to the deck, will be able to accommodate Harrier fighter aircraft.[35] Mobility will be enhanced further by the planned conversion of an infantry division to an air assault brigade.[36] Other important additions to Japanese military forces have included four Aegis guided missiles cruisers and four AWACS (airborne warning and control systems) aircraft. Japanese military and diplomatic officials have also initiated or intensified dialogue with

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[32] Asahi Shimbun (May 14, 1994: 13).

[33] See for example, Hiramatsu (1994); Beijing Review (November 5-11, 1995); and "Murayama to Raise Spratlys Issue with Li Peng," in FBIS on March 9, 1995, p. 4. For a sophisticated Japanese realist's view of how China has replaced the USSR as a threat-- and thereby becomes a justification for the US-Japan alliance-- see Okazaki (1994).

[34] From Ryukyu Shimpo (February 22, 95), reported in FBIS on (February 23, 1995: 1), and FBIS on (September 28, 1993: 7).

[35] The Maritime Self-Defense Force announced its intention to procure “Harrier-2 plus” fighters in April 1995. See the report in Tokyo Shimbun (April 28, 1995) in FBIS-EAS-95-083 (May 1, 1995).

[36] Air assault brigade reported in Asahi Shimbun (May 14, 1994: 13). Amphibious craft reported in Jane's Defense Weekly (September 5, 1992). The Higuchi Report on the future of Japanese defense advocates the purchase of additional mobility assets, perhaps to include large cargo aircraft. Although the report points to peace-keeping needs as the rationale, they would obviously add significantly to Japan's strategic mobility more generally.

virtually all the states of East Asia.[37] Finally, the Defense Agency established Japan's first postwar military intelligence agency (Joho Honbu) in late 1995. Much of this activity appears to be designed to enable Japan to better observe and counter whatever military moves China might mount against Japanese islands ringing the East China Sea.

The measures outlined above, however, are limited in scope; it would be difficult to say that they signal a concerted shift of resources into military assets that could be used independently to balance against China's regional objectives. While some new capabilities have been added, the new National Defense Program Outline (NDPO), Japan's official long term military planning document, calls for the reduction of unit formations in all three services. Almost across the board, personnel and equipment numbers will decline. [See Table 1]:

[37] In Southeast Asia, there has been active cooperation with regional states. Japan coordinates its efforts towards Burma and Indochina with Thailand, where strong political and military ties have been reinforced by high levels of foreign aid, exchange programs for military officers, and constant high level contact between diplomats. Japanese and Thai officials have met to discuss the lifting of sanctions against Burma and the fostering of closer economic ties between Burma and the ASEAN states. Under Burma's isolation, Chinese influence has grown dramatically. The Chinese economic presence has become massive in the northern part of Burma, and there is some concern that Burma has granted basing rights to the Chinese fleet. See, for example, Asahi Shimbun (March 13, 1995). See also Japan Digest (March 20, 1995).

Table 1. NDPO Reductions in Personnel and Equipment

	Current	1996 NDPO	% Reduction
Ground Self-Defense Forces			
Personnel	180,000	160,000	12%
Tanks	1,200	900	25%
Artillery	1,000	900	10%
Maritime Self-Defense Forces			
Major Surface Combatants	60	50	17%
Submarines	16	16	0%
Combat Aircraft	220	170	23%
Air Self-Defense Forces			
Combat Aircraft	430	400	7%

Source: "Shinboei Keikaku Taiko" ("The New National Defense Program Outline"), Asahi Shimbun, November 29, 1995, p. 6.

Although the new generation of Japanese military equipment is qualitatively superior to that which it replaces, reductions in the size of Japan's force structure stand in stark contrast to developments in other parts of the region. Regional force structures, particularly naval and air forces have grown rapidly over the last ten years, while Japan's has remained at about the same size (Table 2).

Table 2. Growth of Naval Forces in East Asia, 1984 - 1993:

	Primary Surface Combatants			
Country	1984	1993	Growth	% Growth
Japan	63	62	- 1	-2%
China	36	56	20	55%
North Korea	4	3	- 1	-25%
South Korea	19	38	19	100%
Total Northeast Asia	122	159	37	30%
Southeast Asia	83	95	12	14%
Total East Asia	205	254	49	24%

Source: IISS, Military Balance, 1993-94, Map insert titled "Asia: The Rise of Defense Capability, 1984-1993." "Primary surface combatants" refers to combatant naval ships over 1,000 tons.

Not only are regional force structures and budgets growing in size, but the rate of that increase is also rising over time. East Asian defense budgets are now growing, on average, faster than GNP. Again, Japan has defied this trend with a defense budget which has, by that standard, remained constant.[38]

Given both that US security guarantees are currently in force and that even without US forces, the Japanese military would enjoy significant advantages in defensive combat against all potential regional aggressors, Japan's refusal to shift proportionally more resources into the defense sector will not leave the home islands vulnerable to invasion anytime in the near future. Nevertheless, the continued limitations on the size of Japan's military force structure suggest that Japan is not preparing to balance against Chinese military power comprehensively. The lack of significant power projection capabilities will leave Japan unable to defend her interests in areas more distant from the home islands and will consequently make it difficult for Japan to secure firm allies or create an alliance system in Southeast Asia should strategic circumstances make such a development desirable.

Japanese policy-makers are not simply taking the "go slow" approach to the expansion of Japan's force structure. Limitations on the Japanese force structure have been codified in the National Defense Planning Outline (NDPO), a long-range planning document. The last NDPO was adopted in 1976, and its provisions were faithfully followed for twenty years. It will be difficult to modify the 1996 NDPO quickly, even should strategic circumstances become still more challenging. Similarly, although Japan has the technical capability to produce nuclear

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[38] The rise of the yen and the growth of the Japanese economy has resulted over the decades in the steady rise of Japanese defense spending in constant dollar terms. In FY 1996 the Japanese defense budget is slated by grow (in yen terms) by 3% and will reach almost $60 billion, easily the second largest defense budget in the world. Yet given the continued unwillingness of the Japanese to increase the share of GNP devoted to defense and the high price of domestically produced defense goods, even that amount is insufficient to produce a force with substantial power projection capabilities.

weapons on fairly short notice and some analysts have consequently echoed Herman Kahn's 1970 prediction that Japan would go nuclear, Japanese planners are not preparing the population in any way for the introduction of nuclear weapons.[39]

We suggested earlier that realism would predict that under current global and regional conditions, Japan should either be developing the capability to defend its interests independently or it should be taking measures to secure the continued military support of its US ally. Our review of Japanese post-Cold War military policy, however, demonstrates that Japan has taken only very limited measures to strengthen its military posture. Certainly, there is little evidence to suggest that Japanese planners are thinking very seriously about a defense strategy independent of US forces. At the same time, Japan is doing little to make the alliance more appealing to its American ally.

The US-Japan alliance has not been redefined to make it more relevant to US post-Cold War interests. During the 1995 crisis over North Korean nuclear program, US defense officials approached their Japanese counterparts about military cooperation in the event of war on the Korean peninsula. The Japanese side, however, refused to commit to the dispatch of minesweepers and other specialized assets in that eventuality.[40] Similarly, there has been little progress on the greatest single irritant in the bilateral relationship, namely asymmetries in trade and investment. When President Clinton increased the pressure for numerical targets on Japanese imports, Japanese leaders (especially Prime Minister Hashimoto who was then MITI Minister) were hailed as heroes "who could say 'no'" to the powerful Americans. Nor has the Japanese bureaucracy produced a credible package for deregulation on its own. Decades of often acrimonious trade talks have barely made a dent in US-Japanese bilateral imbalances. Despite U.S. officials proclamations that the alliance depends on Japanese cooperation on trade, and

[39]For realist predictions of the nuclearization of Japan, see Layne (1993) and Waltz (1993). As noted earlier, Kahn (1970) is of particular interest in this regard. On Japan's technical capabilities and the concerns that Japan's plutonium-based energy program has engendered, see Skolnikoff, et al., (1995).
[40] Asahi Shimbun (November 26, 1995: 1).

despite US ambivalence towards China, both of which ought to raise the specter of abandonment in Japanese eyes, Japanese resistance to economic liberalization not only has never appreciably waned.[41] Despite evidence to the contrary, the Japanese are acting as if they believe that the U.S. commitment and capabilities are as unassailable today as they were in the 1950's.

Perhaps the oddest thing from the perspective of structural realism, however, has been the Japanese failure to exhibit a sensitivity to the relative distribution of gains that have accrued to the China from its economic relations with Japan and other states. Although Japanese military forces have been repositioned from the north to the southern areas nearer China and although China is frequently depicted as a rising military power both in the popular press and specialized literature, Japan has done little to stifle China's economic growth. To the contrary, Japan has competed vigorously for a major investment presence in China. Japan used its influence in the Asian Development Bank and elsewhere to argue actively for the early lifting of the sanctions imposed on China after the suppression of the Tienanmen demonstrators in 1989, and Japanese business leaders visited China within months to reaffirm the commercial relationship. Today, more Japanese ODA goes to China than to any other country. As a partial consequence of Japanese and other investments, the Chinese economy has grown at a double digit pace for over a decade. This economic growth has enabled China to create a credible blue water navy and improve its air force substantially.

In 1991, Prime Minister Kaifu announced that ODA decisions would thenceforth be tied to the recipient state's military and political behavior. However, despite concerns about Chinese nuclear testing, its continuing conventional arms buildup, its aggressive military actions in the South China Sea, and its lack of military transparency, the Japanese government announced in

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[41] Such suggestions have even found their way into official Pentagon strategy statements. The latest East Asian strategy statement (the so-called "Nye Report") warns that "if public support for the relationship is to be maintained over the long term, progress must continue to be made by both sides in addressing fundamental economic issues." DoD (1995: 10) In a 1995 column, Thomas Friedman argued that "We are being played for fools. Japan will only change when we use the full strategic and economic weight of the U.S. to make it clear to Tokyo that a failure to open all its markets, with concrete results, will lead to a crisis in the U.S.-Japan strategic relationship--not just economic ones--and to specific retaliation against Japanese exports." New York Times (March 26, 1995: 15).

December 1994 that annual aid for the three year period after 1996 would be increased by more than 40%.[42] In response to Chinese nuclear testing which took place just one week after the extension of the Non-Proliferation Treaty in May 1995, planned increases in grant aid were suspended for the coming year.[43] However, given that grant aid represents only one quarter of all Japanese ODA to China, given the limited nature of reductions in that aid, and given that Japan maintained its far more significant ($6 billion) yen loan package, it is clear that the use of ODA for leverage on military issues, is a secondary consideration at most.

Nor is it true that Japan is pursuing these China policies behind a comprehensive U.S. shield. U.S. policy toward China is indeterminate at best. On the one hand, U.S. diplomatic recognition of Vietnam, the Lee Teng-hui visit, and U.S. military support for Taiwan are all perceived in Beijing as measures designed to contain the growth of Chinese power. On the other hand, the Clinton Administration's policy of "engaging" China has cleared the way for the US to reestablish the military-to-military ties and defense industrial cooperation that existed during the Cold War. The United States has not established a clear deterrent posture over the issue of Taiwan, much less over possible Chinese military moves in Southeast Asia. For example, the U.S. has not committed itself to the defense of allied interests in the Spratly islands.[44] Nor have US military assets been mobilized in any serious way to combat Chinese "piracy" against selective targets (including Japanese ships) in the South and East China Seas. The most serious and sustained series of attacks in the East China Sea stopped only after the Russians dispatched an escorted cruiser through the Tsushima straits and Japanese Maritime Safety Agency ships succeeded in apprehending some of the culprits. The ambiguity of U.S. policy, particularly the lack of any US promise to protect Japanese interests outside of Japanese territorial waters, makes

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[42] Peter Evans, "Japan and the United States Diverge on Assistance to China," Japan Economic Institute Report No. 19A (May 19, 1995).
[43] Sankei Shimbun (24 May 1995), in FBIS (31 May 1995).
[44] Although the US has a defensive alliance with the Philippines, it declared that that treaty commits the US only to the defense of the main islands, not to the defense of the Spratly's. That clarification came in the weeks following the Chinese seizure of a reef in that island group long claimed by the Philippines.

the Japanese refusal to pursue a relative gains strategy against the Chinese particularly difficult to reconcile with the predictions generated by structural realism.

Japanese economic and aid policies towards China are even more puzzling from this perspective when considered in the context of Japanese economic policies towards the US and Western Europe. Whereas Japan is eagerly courting China as an economic partner, its economic relations with the advanced industrial states continue to be difficult. Japan has effectively protected itself against significant import penetration by the other G-7 states by limiting the ability of multinationals to gain control of Japanese companies. Despite the lifting of many formal restrictions on foreign ownership during the 1970's, less than 0.1% of all investments in Japan from 1982 to 1992 came from foreign sources.[45] This represents less than one-tenth the level found in the G-7 country with the next lowest ranking, Germany. The Japanese market in finished products has remained equally insulated from penetration by products from the US and Western Europe, and patterns of intra-industry trade are atypical.[46]

What makes the Japanese reticence to integrate its economy fully with those of Western Europe and the US while at the same time deepening its economic relations with China perplexing from a structural realist perspective is that there seems to be little correlation between the willingness of Japan to engage these states economically and the degree of military threat posed by those states. Although the US is a current military ally, one might conceivably make the case that Japan could or perhaps even should view it as a potential future military threat. However, even were one to make such an extreme argument about the US, it would be extraordinarily difficult to make a similar argument about the states of Western Europe. None of them is as populous or wealthy as Japan. None has a defense budget as large as large as Japan's (despite the fact that Japan spends only 1% of its GNP on defense or 1.5% using the NATO definition). All of them are so distant from Japan that the projection of force across the gap

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[45] Keidanren (1995: 21).
[46] Lincoln (1990).

would be extraordinarily difficult. As the British difficulties during the Falklands War demonstrated, military force attenuates rapidly across space. Finally, none of the European states has any territorial or other major unresolved political disputes with Japan, and all are fellow democracies. Structural realists may be correct in arguing that military security concerns sometimes act to inhibit trade and investment flows. At least in the case of Japan's economic relations, however, other considerations would seem to be far more important in determining the degree to which that state is willing to trade with specific partners.

Structural realism does not fare very well as a predictor of Japanese foreign policy behavior after the Cold War. As noted, the evidence from the early Cold War period is somewhat ambiguous. Japan's status as a relatively weak power mitigated predictions about internal and external balancing behavior and made realist predicts indeterminate. By the latter decades of the Cold War, however, Japan's economic power had grown, giving it far greater freedom to maneuver on the international stage. Yet its actual behavior changed little. More significantly, Japanese foreign policy after the Cold War provides ample evidence that the possibility of war and conquest is not a central concern of Japanese policy-makers today. Despite the rise of regional challengers (particularly China) and despite the fact that the US commitment to support Japan against those challengers is less strong than it was to defend Japan against the Soviet Union during the Cold War, Japan has taken only minimal steps to balance against its primary regional challengers through the acquisition of new and affordable military capabilities. At the same time, it has done little to either redefine its security alliance with the US in such a way as to secure greater commitment from its American ally. Japanese economic and aid policies have also been inconsistent with what structural realism has to say about policy in those areas. We observe that Japan has placed other interests above those of eliminating the economic tensions that continue to tear at the fabric of the larger relationship and stand potentially to unravel the alliance itself. Japan's economic relations with China and Europe,

meanwhile, show that the willingness of Japan to engage other states economically does not seem correlate to the degree of military threat posed by those states.

This observation that Japanese behavior does not seem consistent with the predictions of structural realism is not ours alone. Other American defense officials and academics, recognizing this, conclude that Japan has no serious security strategy, or that it is an "economic giant and political pigmy."[47] While we find structural realism inadequate as a guide to Japanese international behavior, however, we would not rush to conclude that Japan is in any way bereft of strategic thought. Rather, we would first entertain the possibility that Japanese strategy follows a different sort of realist logic. Chalmers Johnson has argued that:

> "Structural realism. . . has proved to be sound in understanding the competition between the United States and the USSR. But it seems flawed as a guide to the rise of Japan and to the learning process and strategic insights that the Japanese acquired from their military contest fifty years ago with the United States....It is worth contemplating that the Japanese, like the Venetians before them, might be master strategists."[48]

Taking the ideas of Japan's leading strategists and policy-maker's at face value, we will consider first whether a set of predictions consistent with fundamental assumptions of realism can be built from those ideas and second whether Japanese foreign policy is in fact consistent with those predictions.

III. Mercantile Realism

The importance of technology and the role of the state in pursuing policies that secure a strong technological position for national firms have long been central in the Japanese discourse

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[47] Blaker (1993: 3), argues that Japanese policy-makers simply "cope" with crises and have "no calculated strategy." See also Krauthammer (1990-91: 24). Others, such as Nye (1990) and Katzenstein and Okawara (1993), have argued that Japan's international role is limited not by its own strategy as much as by constraints on the exercise of its power.

[48] Johnson (1993: 223).

on of political economy and national security. Consider the observation of Inoue Shozo, a bureaucrat who visited Germany in 1870:

> "I want to make our country the equal of Europe and America. Today even the small children of Japan talk of enriching the country and strengthening the military. But there are few men who really have attempted to discover the tree than has brought forth the fruit of civilization and enlightenment . . . In my search for the source of wealth, the military power, the civilization, and the enlightenment of present day western nations, I realized that the source must lie in technology, industry, commerce, and foreign trade ..."[49]

Much of this message is echoed in contemporary analysis, though many Japanese policy-makers and academics now argue that in the late 20th century economic power is more salient than military power. Economic power is, in this view, not simply the basis on which military power rests but can be used to safeguard or constrain national sovereignty. Japanese elites also frequently argue that national economic power itself is not simply a function of independently operating forces such as the distribution of fixed factors of production but rather can be enhanced through industrial and trade policies designed to create comparative advantage in critical high-technology sectors. The idea that nuclear weapons have made war between great powers unthinkable and the belief that nationalism has made the conquest of even small states difficult and unprofitable largely underlies the sense that maintaining military power has limited utility.[50] Ishihara Shintaro, the conservative politician, and Morita Akio, the Chairman of Sony, called attention to this view when they wrote that production of the microchips used in sophisticated weapons systems abroad, gives Japan leverage over even the world's strongest states.[51] The former head of the Mitsubishi Research Institute summarized this position when he wrote that "(a)lthough national supremacy was once a product of military power, it is now decided primarily by economic power. Economic power is, for its part, decided primarily by the ability to generate technology."[52]

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[49] Marshall (1967: 15-16).
[50] For an clear presentation of both points see Kato (1995), a researcher at the Defense Research Center.
[51] Ishihara and Morita (1989: 14).
[52] Makino (1992: 111).

The willingness to assign technology and national wealth prominence in providing security is hardly unique to Japan. It echoes similar sentiments articulated by economic nationalists across the centuries and around the world. Its disparate antecedents, include the nineteenth century neo-mercantilist propositions of Alexander Hamilton and Frederick List and the mid-twentieth century insights of Joseph Schumpeter and Eli Hecksher.[53] We learn from Hamilton and List that states must nurture their manufacturing capacity to remain strong, from Hecksher that states can use economic power to unify and dominate the system within their sphere, and from Schumpeter that innovation is the most dynamic source of structural change and power in capitalist economies.

Many theorists who have either described or advocated neomercantilism have been primarily interested in the connection between national wealth and military power.[54] It is, however, important to note that policies designed to enhance the technological and economic fortunes of states may be pursued to increase a state's wealth and political leverage *even in the absence of military security considerations*. In this regard, we invoke both Paul Krugman's work on "strategic trade theory" and David Baldwin's assessment of "economic statecraft." Krugman, a liberal economist, shows how the creation of comparative advantage in some sectors--defined by the use of high technology and large economies of scale--enables the national firms of states to garner monopoly rents in the global market and gain important advantages in subsequent rounds of economic competition.[55] It follows from this conception that if a state does not protect itself against such competitive practices, it will face long-term problems securing technology and generating wealth. Baldwin, for his part, catalogues the ways in which

[53]For more on the ways in which Listian neo-mercantilism and Schumpetarian models of innovation apply to Japan, see Samuels (1994). On strategic trade theory, see Krugman (1990).
[54] Gilpin (1987) writes that "all nationalists [a term he uses interchangably with 'mercantilists' and 'neomercantilists'] ascribe to the primacy of the state, of national security, and of military power in the organization and functioning of the international system." (p. 31) Throughout, he associates mercantilism with realism and free trade with liberalism. Baldwin (1985) has drawn on the work of Viner and others in justifiably questioning this stark dichotomy. He points out both that economic liberalism can be advanced for reasons of national security and mercantilist policies can be pursued for exclusively social or economic reasons. pp. 81-83.
[55]Krugman (1990).

economic coercion can be used to constrain national sovereignty.[56] The weaker or narrower the technological base maintained through manufacturing, the more vulnerable states may be.

In short, what we refer to as "mercantile realism" is synthetic. It is associated with more than the maximization of military power and the accumulation of wealth central to classical mercantilism. It appreciates how wealth and technology are themselves instruments of power. Thus, we suggest that for some states there is no simple identity between mercantilism and the imperative to enhance national military power. Having established that proposition, however, mercantile realism accommodates the reintegration of economic and military conceptions of power and national security and the creation of a more comprehensive realist theory of international relations. This reintegration is enabled by the breadth of realism per se. That is, despite the difference in ends, military and mercantile variants of realism share several common elements. Each is "realist" because each posits states as the most important actors in world politics; each assumes that state behavior is determined by rational national leaders who seek to maximize state power; and each suggests a competition between states for *relative* power and security. Under some global/regional political conditions the predictions generated by each are identical. Under other conditions, they diverge. In order to appreciate how these diverge (and why), and in order to be explicit about the mercantile variant of realism, let us review some specific predictions.

1. *Techno-economic interests may be pursued at the expense of political-military interests.* Nations may be forced to choose between maximizing techno-economic values and political-military values. Structural realists argue that when forced to make this choice, states will seek to achieve political-military goals first. Military security is like oxygen, they assert. It is taken for granted until there is too little of it, at which point, states will do anything to get more.[57]

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[56] Baldwin (1985).
[57] See Nye (1995) for the use of this metaphor.

Mercantile realists respond that economic security is just as important and add that once economic security is gone, it is extraordinarily difficult to recover. A state with a powerful technological and industrial base is capable of transforming itself from a military pygmy into a military giant within a short span of time, while states with large militaries that allow their industrial and technological base to wither find themselves in a more difficult predicament.[58] They may be unable to protect themselves from either economic coercion *or* military threats. It may take a state with long time-horizons to make appropriate trade-offs between political-military and techno-economic values, but states that are able to plan for the long-term are likely to enjoy longer periods of security *and* prosperity than those which cannot.

2. *The nationality of firms matters as much as the location of production.* Even in a "global economy" mercantile realists assume that firms have (and will retain) a national center of gravity. They therefore seek not only to nurture firms within their borders, but to support national firms abroad. They are more comfortable trading with co-nationals sited abroad than they are with foreign-owned entities at home. It follows that outward foreign direct investment can be used to entangle allies and to create dependence that serves national ends, while inward direct investment can be carefully monitored and circumscribed to prevent the same result. Mercantile realists have no difficulty identifying "who is us?" After all, as Laura Tyson put it,

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[58]The best example of an economic superpower transforming itself rapidly into a military great power is the United States, which had been spending only 1.5% of its GNP on defense in the two decades before WWII. In 1939 the U.S. produced only a quarter as many military aircraft as Germany. Yet, by 1941 it was producing well over twice as many military aircraft as Germany. (See Paul Kennedy (1987: 324, 332, and 354.) The reverse example is 16th Century Spain. Not only did Spain's relentless wars weaken its financial position, but mercantile policies specifically designed to amass gold reserves for military operations rather than to promote manufactures also enervated Spanish industry. Ultimately, Spain lost its edge over England and even the United Provinces in both military technology and in the relative ability to finance military operations. Russian power similarly hollowed during the late 19th and early 20th centuries. By the time the effects became obvious in these cases (after the sinking of the Armada in 1588 and after the sinking of the Baltic fleet at Tsushima), it was too late for either of those states to take effective counter-measures. Although the Russian governement undertook a largely French-financed program of crash industrialization under Finance Minister Sergei Witte after the Russo-Japanese War, the Russian economy was nowhere near strong enough to long withstand the riggors of world war in 1914.

mercantile realists know very well that "They are not us."[59] Under structural realism, the physical location of production may be more important, since production assets may be nationalized in the event of war. Although the control of natural resources was once regarded as a key determinant of national power and wealth, mercantile realism suggests that the terms of trade have been and continue to move against the producers of the raw materials and toward producers of knowledge.

3. *The distinction between the military and commercial economies will be minimized.* When military power was given primacy, military industries grew isolated from the commercial world. For a time, these isolated activities generated significant external benefits for the economy as a whole. Ultimately however, less was "spun-off" than was "spun-away"-- dear resources were lost in the pursuit of military power.[60] Mercantile realists, cognizant of the role that wealth and technology play in undergirding national power will direct trade and industrial policy toward the promotion of industries that incorporate advanced technology and are expected to experience rising consumer or industrial demand. There will less emphasis on creating excess capacity in industries that are currently useful in military production than structural (military) realism would suggest, and there will be less of an emphasis on R&D dedicated specifically to military products.

4. *Security threats are economic as well as military.* Under structural realism, the primary threat to state security is from direct attack. The equivalent of military conquest in mercantile realism is deindustrialization or dependency. Since states that actively intervene in their national economies to nurture domestic producers are acting to protect domestic markets from the economic equivalent of direct attack, we would expect that interventions will be justified as

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[59]The debate over "Who is Us?" was initiated by Robert Reich (1990). See also Tyson (1991).
[60]See Samuels (1994 , ch. 1) for an elaboration of this argument, in particular the distinctions among three "technomilitary paradigms"-- "spin-off," spin-on," and spin-away."

matters of national security and will therefore often entail the sorts of national mobilization and sacrifice associated with military mobilization elsewhere. It follows that the elite cadres of economic bureaucrats in such states should enjoy the same training and status as military officers in the states better described under structural realism. Such states should be particularly sensitive to technological dependency. Since "technological capabilities are the root of manufacturing mastery" and thereby essential for prosperity, timely access to technology is a matter of national security.[61] Strategies to assure such access and to create manufacturing mastery in times of peace are far more important than those to ensure "surge capabilities" in time of war. The dangers of excessive dependence are measured as more than "vulnerability" due to access denied; there are the opportunity costs of foregone chances to learn and to innovate. Mercantile realists also worry about exploitation by technological leaders who would use their market power to "tie" (influence purchases), to "rent-seek" (raise prices), to extort by allocating or denying supplies for strategic reasons, and to engage in predation by driving one's national producers from the market entirely. Mercantile realists make the consequence of such dependency-- "hollowing" (the reduction of national firms to the assemblers, handlers, and retailers unable to reap the full profits of manufacturing and innovation)-- a central focus of strategy.

In addition to offering these four predictions of state behavior, our focus on techno-economic values also permits the identification of two systemic dynamics that are analogous to (but significantly different from) those posited by structural realism.

1. *Techno-Economic Security Dilemmas.* One of the most important dynamics identified by structural realists is the "security dilemma." Under a security dilemma, even status quo states may find themselves locked into intensely competitive struggles for security with one another.

[61] This analysis is from Gilboy (1995). See also Moran (1993).

All states will maintain armaments of some kind for their own defense because states can never be sure of their neighbors' intentions. Yet those armaments will frequently make other states less secure and prompt them to increase their own military capabilities. Security dilemmas will be particularly severe when: 1) defensive capabilities are largely indistinguishable from offensive ones; 2) material conditions, such as technology and geography, tend to favor offensive operations over defensive ones; and 3) reliable information about the activities or assets of competitors is relatively scarce. In these cases, even two status quo states may be simultaneously insecure vis-à-vis one another and may compete intensely in the military realm. Several students of this problem have observed that offensive and defensive forces are frequently difficult to differentiate and even where good information is available, states frequently distrust it.[62]

We observe that techno-economic security dilemmas may also exist where an increase in one state's growth and relative gains are perceived to come at the expense of another's. Domestic subsidies, R&D subsidies, technology diffusion programs, structural adjustment measures, and other forms of protection and nurturance, like their military counterparts, can provoke responses from neighbors even when they were intended entirely for "defensive" motives-- i.e. to assist domestic producers disadvantaged in the global economy. Indeed, like classical security dilemmas, techno-economic security dilemmas will be particularly intense when offensive measures are indistinguishable from defensive ones, when offensive measures are relatively effective, and when states lack access to good information about the activities of their potential competitors.

Offensive and defensive measures are probably even more difficult to distinguish in economic than in military competition. It may, for example, be difficult to determine when infant industry protection constitutes or becomes predatory trade. Was the European Airbus consortium an aggressive attempt to subsidize an industry to provide European states with

[62]On the relative frequency of these conditions, see Jervis (1978); Levy (1984); and Sagan (1986). See also VanEvera (forthcoming) on offense versus defense.

external benefits, or was it a defensive attempt to level the playing field against US aerospace firms which dominated world markets due to indirect subsidies provided by military procurement? Even when tariffs and other forms of industrial policies are entirely transparent, opaque non-tariff barriers can generate great insecurity and can stimulate destructive "beggar-thy-neighbor" trade and investment dynamics.

2. *Techno-Economic Balancing and Bandwagoning* A second systemic dynamic analogous to those seen under structural realism is balancing and bandwagoning. States which dominate one or more high value added industrial sector and/or behave in ways that appear predatory, may face the prospect of collusion to exclude their products and investment. Industrially weak states, or states that are particularly badly positioned geographically, may have little choice but to partner (bandwagoning) with economically powerful neighbors and integrate their economies with those neighbors fully. Regional economic blocs are the mercantile realist analogue of structural realism's military alliances.

Structural realism suggests that great states balance against militarily threatening states. The degree to which states are regarded as threatening is determined by their 1) military strength, 2) geographic position, and their 3) behavior. Great states will ally with smaller, less aggressive, or more distant states. We suggest that balancing is also an important dynamic under mercantile realism. States also balance against other states that pose a threat to their industrial or technological base by forming economic blocs. As we argued above, deindustrialization and dependence are the ultimate threats. They are to mercantile realists what becoming a subject nation is to structural realists. The states that a given nation will balance against may still be determined by strength, position, and behavior, but the definition of each of those attributes will be different under techno-economic logic:

> 1) *Strength* in the mercantile world is not determined by size or population, but by wealth and technology. While these have hardly been unrelated historically, they ought

to be distinguished analytically. Mercantile realists will balance against wealthy states that are endowed with strong, technology-intensive industries.

2) *Position* in the mercantile world is defined less by physical geography than by the sectoral space a state occupies, or, in other words, its industrial structure. States which compete in the same sectors will tend to view each other as threatening, and mercantile realists will not engage in intra-industry trade. Geographic position will be less important. While military strength is rapidly attenuated across space, technological power, and the ability to profit from it, are not. Hence, states on the other side of the globe may, in the context of global markets, pose as big a threat to one another as states that share common borders.

3) *Behavior* is also as important in mercantile realism as it is under structural realism. States will naturally balance against others that behave as economic predators. As our discussion of technoeconomic security dilemmas suggests, however, the behavior of other states is as likely to be misinterpreted as it is in the world of structural realists. Ironically, it is states that adhere to "hyper-realist" principles in either the military or the mercantile realm that are likely to find themselves isolated, since the exaggerated defensive behavior of these states may be interpreted as offensive by others.

Our effort to distinguish mercantile from structural realism should be seen in a larger context. In its classical formulation, realism was a comprehensive theory of state behavior. During the Cold War, however, it became and continues to be closely associated with strategic studies and with the military consequences of structural features in world politics. Neo-realists abandoned their classical roots in an effort to introduce analytical rigor and parsimony. As Randall Schweller notes elsewhere in this volume, however, the breadth and full texture of international competition has been lost in the structural realists' quest for parsimony.

> ". . . scholars and practitioners have been getting off the realist train at various stops over the past decade or so. . . At its core, classical realism is a theory of the state and international competition. It is not, primarily, a theory about how states acquire security or about strictly defense issues. Indeed, the best treatments of realism's intellectual roots are not found in the security side . . . but rather in its more overlooked economic philosophy of mercantilism."[63]

[63]Schweller in this volume.

We concur that realism can and should be made more robust and comprehensive. Samuel Huntington, for one, has moved beyond the narrow military conception of realism and has applied classical realist thought to the study of Japanese foreign policy:

> "(f)or decades Japan has acted in a way totally consistent with the 'realist' theory of international relations, which holds that international politics is basically anarchic and that to insure their security states act to maximize their power. Realist theorists have focused overwhelmingly on military power. Japan has accepted all the assumptions of realism but applied them purely in the economic realm." [64]

In the next section we will test the mercantile realist model against Japanese foreign policy behavior after WWII.

First, however, a final caveat. We readily acknowledge that the predictions of structural realism and of mercantile realism frequently are similar. After all, strong military states may also often be wealthy states with high technological standards. We note, however, that this is not always the case. Russia in the 19th century was clearly a first-rate military power (at least on land), yet its industrial and technological base was just as clearly second-rate. Spain in the 16th century, or China today may also be regarded as strong military states without comparable economic or technological strength. Other contemporary states, like Switzerland or Singapore-- or even medieval Venice-- stand out as examples of states with limited military capabilities but strong technological and financial ones. Observing these "one-dimensional" states should provide clues about the fears and ambitions that animate grand strategy. Paying special attention to these areas where predictions about observable phenomenon differ, we can begin to test the theories. Let us now attempt to do this in the case of Japan.

Testing Mercantile Realism Against Japanese Foreign Policy. From the perspective of Japan's techno-economic position, the end of the Cold War is not a watershed; we will therefore

[64] Huntington (1993: 311).

examine the evidence from the entire post-war period here, taking each of our propositions and systemic dynamics in turn.

1. *Trading off Political-Military Interests for Techno-Economic Interests.* Japan's failure to balance powerfully against China and its willingness to push forward on the trade and investment front defies the logic of structural realism's focus on the primacy of military competition. Japanese behavior towards China is, however, less problematic from a techno-economic point of view. Japan signed a trade agreement with China in 1978 designed to capitalize on the "economic complementarity" of the two states. Under that agreement, China was to export $10 billion worth of oil to Japan between 1979 and 1985, and in return Japan would export the same value amount of machinery to China.[65] The growth of the Chinese market-- combined with the recession at home-- has given China even greater significance to the Japanese economy. A recent report by a Japanese automobile executive argues that

> “(i)f the Japanese automobile industry wants to maintain its prosperity into the 21st century, it has no option but to discover new inroads into the Chinese market....I believe we should take the massive funds, massive production facilities, and sophisticated technology we secured from existing markets in the latter half of this century and transfer them to the Chinese market with its giant potential for the 21st century.”[66]

But the author warns against simply selling Japanese technology without securing the right to establish Japanese owned production facilities. Otherwise, he argues, the Chinese

> "would put the transferred technology to use and polish it in the vast, still closed Chinese market....When their products later hit the overseas markets, including Japan's, they would pose a serious threat."[67]

This report reveals the extent to which technology is considered a strategic asset (to be used in this case for leveraging open the Chinese market), rather than a commodity to be traded as any other. It also suggests the strategic and commercial motive for Japanese engagement with China,

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[65] Qingxin (1993).
[66] Watanabe (1993: 10).
[67] Ibid., p.11.

rather than its political-military motivation. If approached cautiously, the complementarity of the economic relationship makes China an attractive partner for Japan. Although China represents a potential military threat to Japan, it also stands as a potential production platform and market for Japanese high-tech goods.

Just as Japan has shown less sensitivity to the problem of relative gains vis-à-vis one of its greatest potential military competitors than the military focus of structural realism might predict, its economic relations with the U.S. have been characterized by greater distance. From the beginning of the US Occupation in 1945 until today, Japanese strategists have been more willing to accept U.S. military on their soil than U.S. bankers or manufacturers. That this dichotomy has persisted for fifty years, and that Japan has continued to resist foreign investment and opening its markets suggests that there may be a techno-economic calculus at work. In the 1960's and 1970's Japan was, by its own admission, buying time. As Mark Mason notes about investment controls:

> "... the authorities operated an elaborate and virtually comprehensive control system which scrutinized all major foreign investment proposals through an arduous case-by-case procedure...designed to *discourage* or filter out, most inflows of FDI, but to *encourage* inflows of foreign technology."[68]

Japanese economic liberalization and deregulation have been as lethargic, reactive, and limited as its subordination within the political-military alliance has been active and accommodating. Each has been highly strategic. Cross-shareholding among Japanese firms increased dramatically during this period of nominal liberalization directly in response to the foreign "threat" of market competition. The financial integration of Japanese *keiretsu* dates from this period, and was called Japan's "key weapon" by one Japanese analyst.[69]

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[68]Mason (1992: 151). Mason quotes Amaya Naohiro, the MITI architect of this program, who said in 1969 that: "MITI's basic aproach has been to gain time as long as the opponents are not too angry." p.201. For a comparative study of Japanese "reregulation" as a substitute for deregulation, see Vogel (forthcoming).
[69]Cited by Mason (1992: 207).

Whereas the US is willing to overpay for defense goods in order to guarantee the autonomy and health of its defense industry, Japan is frequently willing to pay higher factor costs in order to guarantee its industrial security. Examples from the industrial side are easy to find. Although Japanese reports in 1995 indicated that acceding to US demands for increased auto parts imports would have enabled Japanese makers to cut costs on those parts by 20 to 30 percent, a rapid shift in supplier relations was judged detrimental to Japan's interests since it might jeopardize Japanese production, employment, and the keiretsu system of industrial relations.[70]

Many of Japan's decisions in the military realm have been driven as much by economic considerations as by strictly military calculations. In 1968 and 1970, Prime Minister Sato Eisaku commissioned a study on Japanese nuclear options. The second of these reports concluded that "(t)he days are gone when the possession of nuclear weapons is a prerequisite for superpower status." Although the existence of these groups scandalized Japan when their existence was revealed in 1994, the groups had been established to provide the intellectual justification for Japan's ratification of the nuclear Non-Proliferation Treaty (NPT). The ratification of the NPT itself would, it was hoped, provide both economic and political benefits useful for a Japanese government bent on doubling Japanese GNP in a single decade. One participant reported that "(t)here was a pressing need to secure nuclear energy for economic growth by joining the NPT. It was therefore urgent that we arm ourselves with a rationale against acquiring nuclear weapons."[71]

Similarly, the debate over the role of Japan's conventional forces and on whether or not Japan should become a "normal" nation is colored by economic considerations and the exigencies of economic diplomacy. Even those who are advocating a greater Japanese political and military role in the world would limit Japanese involvement in operations overseas to UN-

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[70] FBIS (6 June 95: 1-2).

[71] Asahi Shimbun (November 13, 1994).

sponsored and directed missions. Although Japan displays great concern for autonomy in economic affairs and resists the foreign ownership of production in Japan, it also displays a far *greater* willingness than many other states to place its forces under international command. Unlike most "normal" nations, the rationale for the use of military force by a "normal" Japan would be the assumption of greater international burdens. Use of force would not be undertaken in the pursuit of national interests as structural realists would define them. Rather, the use of force would be the burden that Japan would assume in order to maintain Japan's image as a member in good standing of the world community. It is that image, not the use of force per se, that serves Japan's national interests by reinforcing the inclination of other states to continue supporting the free trade system that makes Japanese prosperity possible.[72]

2. *The Nationality of Firms Matters.* As we noted earlier, structural realists have made few detailed predictions about national economic priorities. Structural realism does not, for example, specify with any great precision whether the ownership of firms or the location of those firms is more important. Mercantile realism is far less ambiguous on those questions. Although the underdevelopment of the structural realist literature makes the simultaneous testing of predictions from both theories in this area difficult, the evidence does support three conclusions. First, the logic described by mercantile realism on questions of national ownership does seem to be at work in the Japanese case. Second, Japanese leaders take the question so seriously that they are willing to see important political-military relationships undermined in the pursuit of Japanese interests in this area. Finally, the U.S., a great military power and home to structural realist theory, does not pay the same premium for national ownership. The Japanese are certain that nations and national ownership count, even in a "global economy." Thus, Japanese industrial policy fosters the geographic collection of skills and resources, generally, but by no means

[72]This argument is made explicitly by Ozawa (1994).

exclusively coextensive with their citizenry. Ideas about national security "sell" these choices; the Japanese know exactly "who is us," and prefer consistently to trade with co-nationals.

The recent auto parts trade dispute between the U.S. and Japan illustrates both the Japanese emphasis on the nationality of firms and the differences in the U.S. perspective. U.S. pressure on Japan to purchase higher volumes of U.S. manufactured automobile parts in 1995 went beyond routine demand-making and threatened to lead to a fuller "trade war." The Clinton Administration set a deadline by which 100% tariffs would be applied to imported Japanese luxury automobiles unless there were "measurable" changes in Japanese procurement of US auto parts. The Japanese side reacted vigorously to this demand for quantitative measures and refused to bow to US pressure. Hashimoto Ryutaro, the then MITI Minister who said "no" to the United States, was hailed as a hero and propelled, within a year and a half, to the post of Prime Minister. Ultimately, an agreement was reached that Japan would increase imports of auto parts manufactured by Japanese firms in the United States. The Clinton administration was satisfied that jobs would stay in at home, while Japanese firms were pleased to achieve significant cost reductions while retaining control and profits. Japan's ability to say "no" to the United States on the ownership of firms and technology and the willingness of the United States to take "no" for an answer are attributable to the difference between the dominant US view that firms do not have nationality and the prevailing Japanese view that Japanese firms are Japanese wherever they are located. Had there been any doubt on how Japan would decide on an issue of critical concern to its alliance with the United States, it might have been answered by Hashimoto a decade before the dispute over quantitative measures for trade progress: "Japan's relationship with the United States is extremely important. However, it is not something that we have to protect to the point of throwing our national sovereignty."[73]

Perhaps the clearest illustration of the emphasis that Japanese leaders place on national ownership and control can be seen in the approach to foreign pressure called *kaihatsu yunyu*, or

[73] Pyle (November 1995: 42).

"development importing." Using this approach, the post-Cold War liberalization of beef and citrus was accompanied by the acquisition of cattle ranches and groves abroad. Following the same logic, structural recession cartels were created in the 1980's. For example, when aluminum smelting proved hopelessly uneconomical, Japanese firms were subsidized and guided toward collective investment in Brazilian and Indonesian smelters to avoid dependence on foreign ingot.[74] According to one recent study, two-thirds of all suppliers to Japanese firms located abroad are other Japanese firms.[75]

3. *Military and Commercial Economies are Integrated.* Japan has pursued a paradoxical route to autonomy through dependence. The postwar Japanese defense industries benefited from a staggering number of technology transfers with leading foreign (almost entirely U.S.) military and commercial producers. In learning how to meet the world's most exacting standards--those of the U.S. military in the 1950s--Japanese industry made rapid progress toward independence. They did so through joint ventures, licenses, co-production and co-development programs, and maintenance, retrofit, and overhaul contracts. They freely transferred product and process technologies within highly diversified firms that made no distinction between military and commercial production except at final assembly.

According to the U.S. Congressional Office of Technology Assessment, in fiscal year 1991 alone Japanese royalties to the United States for aerospace licenses were $816 million--roughly the size of Japan's official defense R&D budget.[76] In the process, Japanese producers use alliances with U.S. manufacturers to accumulate skills with broad competitive implications. Even the Technical Research and Development Institute, the agency responsible for domestic development of defense systems, acknowledges the massive benefits of licensed production:

[74] Samuels (1983). See Tilton (1995) for more on upstream integration overseas by Japanese firms.
[75] Nikkei Industry and Consumer Research Institute (February 1995).
[76] These data and this discussion are from Samuels (1994, chapter eight).

> "We began indigenous production based upon the introduction of licenses for U.S. and other military equipment. Although these new technologies were intended directly for military purposes, the special technologies to manufacture these exceptional products spilled over into the commercial world and before long they found their way into every area of the economy--superior large scale systems engineering, environmental testing, quality/reliability control--such that it is impossible to ignore the huge contributions that licensed military production made to the rapid elevation of our nation's industrial technology base . . . Licensed production continues to enable us to absorb many advanced foreign technologies."[77]

4. *Economic Threats Are Real Threats.* Japan has acted persistently as if its greatest vulnerabilities have been economic and technological. The penetration of Japanese markets, particularly in manufactured goods, has been perceived as a threat, whether or not that penetration was by the firms of a military competitor or ally. Consider how, in 1982 at the height of the Cold War, Wakasugi Kazuo, the Director-General of the Trade Policy Bureau of the Ministry of International Trade and Industry, warned publicly that unless the United States and Europe relaxed their trade and market opening pressures, Japan might be forced to join the Communist bloc.[78] When economic threats are perceived, Japanese leaders demonstrate a willingness to sacrifice military values for techno-economic ones. In the late 1980's, the U.S. Department of Defense began a program to improve efficiency in weapons acquisition. The DOD, working with some of its major prime contractors, developed software for an electronic materiel database: the Computer Aided Acquisition and Logistical Support System (CALS). According to press reports, the CALS system is designed to shorten development time and reduce inventory, thereby increasing efficiency; contractors such as Boeing and General Motors began adapting this integrated product management system for commercial use. According to Japanese press reports:

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[77] Quoted in Samuels (1994: 179).

[78] In his account of this incident, Johnson (1984: 59) notes that the Ministry of Foreign Affairs quickly diffused the crisis by declaring that Wakasugi's was not the official view of the Japanese government. He adds that MOFA "hardly needed to have bothered, since no one in the West was surprised by or doubted the truth of Wakasugi's comment."

> "Japanese companies are afraid that CALS...will become the international standard...and if Japanese products do not meet the standard they will be kept out of the world market. It could also lead to the disintegration of the Japanese traditional *'keiretsu'* business practices and to worldwide restructuring since cost/performance could be the driving force for the use of CALS."[79]

The threat that Japanese firms will be excluded from the marketplace and that traditional supplier relationships will be disrupted by low cost, direct procurement (something *desirable* in the US), has led MITI to budget more than $6 million in 1996 (and $17 million in 1997) to develop a Japanese CALS and to create an international CALS system that excludes US and European firms. MITI has invited China, Indonesia, Malaysia, and the Philippines to participate in the development of pilot CALS systems in the areas of automobile, electronics, and textile manufacturing. MITI will invite the US to participate "in the future."[80]

Japanese leaders perceive a range of threats-- not the least of which are threats to the sustenance of long-term manufacturing capabilities-- including market shifts and technological revolutions. Firms and the government vigilantly monitor the economy to mitigate the worst effects of each. There is also the threat of "excessive competition" - the fratricidal competition among firms that results in bankruptcies and unemployment, but which is oxymoronic in western terms. In the Japanese view, the social dislocations of "excessive competition" are as great or greater than the economic costs of excessive concentration in neo-classical model. Thus, firms and sectors are nurtured, and the resulting dense local, regional, national, political and industrial networks do not facilitate the "cut and run" strategies typical in the U.S. Rather, Japanese primes and subcontractors share market pain, and grow together during economic upturns.

The threat of deindustrialization--popularly referred to as "hollowing"--has never been far from public concern and strategic attention. Perhaps as a consequence, the overvalued yen drew much less investment away from Japan than western analysts expected. Small and medium sized

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[79]Foreign Media Note (August 23, 1995: 1). This English-language compendium cites reports in Nikkan Kogyo Shimbun (25 July, 5 June, and 29 May 1995), Nikkei Sangyo Shimbun (13 and 31 July 1995), Nikkei Mechanical (1 May 1995), Nihon Keizai Shimbun (28 July 1995).
[80]Ibid., p.2.

manufacturing employment actually rose by 8% between 1990-1992; it stayed flat through 1993-4, and fell just 2% from late 1994-1995.[81] Thus, between 1990-1995 the overall manufacturing sector in Japan posted a net gain in jobs despite the recession and despite the high yen which encouraged even faster investment overseas. That the United States (despite its cheap dollar) lost 12% of its manufacturing base during this same period, suggests that Japanese strategists place different value on manufacturing, and are therefore willing to pay a higher cost to maintain it.

Finally, there is the general issue of technology transfer to Japan's trading partners. Whereas structural realism might predict that states might use technology transfers to strengthen collective alliance strength against military competitors, mercantile realism makes no such prediction. During the Cold War, it was in the perceived security interest of the United States to encourage US firms to sell technology to Japan (or at least not to intervene when the Japanese government required such sales). The United States used technology transfer to support its allies. By contrast, in the Japanese case, technology may be traded, and it may be transferred within firms, but it is rarely sold. There is no overriding security interest that such sales would satisfy. To the contrary, control of technology is itself an overriding security concern. As mercantile realism would predict, there are very few countries with which Japan enjoys a technology trade surplus. Further, those that *do* have a technology trade surplus with Japan are also those, such as China, Thailand, Indonesia, and the United Kingdom, where Japanese investment accounts for a large portion of domestic manufacturing investment. Thus, we observe that technology, like trade, follows investment, and that technology is a strategic economic asset, not a commodity, and not an asset that could be used in a strategic military sense to secure or bolster the strength of allies and trading partners.[82]

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[81] Sofucho Tokeikyoku, ed. (1994, Table 6). On responses to hollowing, see Keidanren (1995); see also National Institute for Research Advancement (1995).

[82] For more on differences between the U.S. and Japanese strategic treatment of technology, see U.S. Congressional Office of Technology Assessment (1994).

We find that the systemic dynamics in which Japan is engaged are differentially consistent with propositions derived from mercantile realism:

1. *Techno-Economic Security Dilemmas.* Overall, it seems that Japan's subsidiary role in the US-Japan alliance and the willingness of the United States to trade-off political-military values for techno-economic ones, has precluded extended spiraling. With the U.S. showing greater willingness to confront Japan on economic issues, and Japan sensing that its economic relations with other, particularly regional states, have given them the ability to say "no," however, the likelihood of such problems is surely on the rise.

One nascent case is the early 1996 response of Japanese manufacturers to the successful response of U.S. manufacturers to Japanese success in microelectronics. Apparently responding to the successful efforts of Sematech in the United States, ten Japanese chip manufacturers agreed to establish a $300 million consortium to design and manufacture 256 megabyte DRAMs. This is the first such consortium since the very successful VLSI project of the 1970 and, since Sematech was itself a response to the VLSI project, we believe we may be witnessing the beginning of a techno-economic spiral-- replete with pledges of transparency, but with membership restricted to national firms on both sides.

2. *Techno-Economic Balancing and Bandwagoning.* Under the assumptions of structural realism, states balance against aggressive states with powerful military forces, while under those of mercantile realism, states balance against wealthy states that are endowed with technology-intensive industries. During the Cold War, Japan seldom had to choose between advancing its political-military or techno-economic interests. The Soviet Union represented a military security threat to Japan. Although it did not represent an economic threat, it also did not represent an economic opportunity. For its part, the United States was willing to provide both economic

public goods in the form of open markets and military public goods in the form of an extended nuclear deterrent and forward deployed ground, sea, and air forces. Indeed, as we have noted, the United States pressured its European allies to cooperate. Japan could bandwagon with the United States politically and balance against the U.S. economically; thus, the general outline of Japan's alliance patterns during the Cold War (i.e., a security policy oriented around the U.S. Security Treaty with an economic policy directed at maximum growth behind protective barriers) is consistent with both conventional and mercantile realism.

In the post-Cold War period, Japanese leaders will have to face difficult choices about how to reconcile techno-economic with military-political security interests. American pressure for market access has provoked a great debate in Japan between those who would suggest an Asia-first strategy and those who would seek to maintain the American alliance. The split on this issue does not represent one group supporting the status quo against another seeking to overturn it. Either option would require substantial adjustment, and while the debate is far from being fully played out, it is well under way in Japan. Where these two camps have collided most directly over the economic and political organization of East Asia, the American-first camp has prevailed. Japan's refusal to join with Prime Minister Mahatir of Malaysia and support the formation of an East Asian Economic Caucus (EAEC), a framework which would have excluded the United States, effectively legitimated the Asian Regional Forum (ARF), which includes the United States. Yet, many Japanese bureaucrats, politicians, and business leaders have actively and openly advocated turning away from the US alliance and toward Asia. Clearly, the debate is becoming more, rather than less, lively.[83]

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[83] See Green and Samuels (1994), for how these choices are framed by politicians and bureaucrats. MOF's activities in support of the EAEC and other Asia-first activities is detailed in Nikkei Business Weekly (October 31, 1994: 33-37). Note too how Ambassador Ogura Kazuo broke ranks with his Ministry of Foreign Affairs, and published a controversial essay in which he argued that Asia was merely a EuroAmerican construction. Ogura (1993). Asians would need to redefine themselves and their values. He suggested that a "revived" Asia would draw upon its common cultural strengths and values, and force the US to adapt. According to one analyst, Ogura argued that "Japan must separate from America (due to) the essential incompatibility of American and Japanese values." Teshima (1995: 118).

From a mercantile realist standpoint, there are major economic incentives for Japan to pursue an Asia-first strategy. Many Asian economies are highly complementary to that of Japan, and the ability of Japan to use its size and technological position to play one state off against the other gives Japan a great deal of leverage in its dealings with those states. Japan has not only established wholly-owned subsidiaries throughout the region, but it has also been particularly successful in replicated entire supplier-producer networks in Asia. The cooperative inter-firm relationships between members of Japanese *keiretsu* have been transplanted together with Japanese subsidiaries.[84] The results have been impressive. Between 1986 and 1993, Japan's trade surplus with Asian states rose more than threefold to $55.6 billion, exceeding its trade surplus with the US for the first time. In 1994, Japan's surplus with just the four newly industrialized countries--South Korea, Taiwan, Singapore, and Hong Kong--reached $63.9 billion, and its surplus with the four largest states of ASEAN rose to $8.7 billion. The trade surplus with both of these groups rose again rapidly in the first half of 1995.[85] The strong yen and "development imports" notwithstanding, Japan runs trade surpluses with virtually all its trade partners--rich and poor, agricultural and industrial, those with budget surpluses and those with deficits. These results belie the argument that Japanese trade balances are merely the consequence of low savings and investment abroad, and they give very literal meaning to the term "strategic trade."

V. Conclusions

For the last fifty years, Japanese policy has been guided by a technonational ideology that evolved from nineteenth-century mercantilism and survived twentieth century militarism. Indigenization, diffusion, and nurturing of technology define the core of Japanese security; they

[84]Borrus (1996). Ravenhill (1996).
[85]Business Week (August, 21, 1995: 20).

stand in sharp contrast to U.S. practice. In the United States science, technology, and the economy became stepchildren to the military. In Japan they became godparents, and their relationship to one another was summed up in the phrase "Rich Nation, Strong Army"--a slogan that presaged war and devastation. Yet the contribution of this technology and security ideology to the new Japanese state was profound. Successors to the modernizing oligarchs of Meiji and to the military aggressors of early Showa learned that technological capabilities are central to national security. Recall the rueful observation by former Prime Minister Yonai Mitsumasa that the Japanese defeat in the Pacific War was above all else a "technological defeat."[86]

After 1945 the successors to Imperial Japan reinvented national security through a program of commercial technonationalism--a program we might call "Rich Technology, Strong Nation." The architects of postwar Japan developed and maintained a set of beliefs about their external environment and about the position of their own state within that environment that enabled them to define a grand strategy, or theory of victory, suitable for Japan. Those beliefs include the idea that nuclear weapons have made war less frequent and profitable; that Japan suffers from particular military weaknesses relevant in modern warfare; and that economic means can frequently be used to substitute for military power. Consequently, rather than the maintenance of strong and active military forces, the surer route to Japanese security would be through the maintenance of a robust economy and through the sagacious exercise of economic diplomacy.

While not all Japanese elites share the view outlined above, institutional changes after the Second World War gave strong voice to those with an interest in economic security and enabled the solidification of broad-based consensus around the development of Japan's techno-economic capabilities. Although Japanese military officers are no less inclined than American ones to support the military strengthening of the state, institutional arrangements established after the Pacific War have marginalized their voice. The Army and Navy Ministries, which had enjoyed

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[86]Cited in Samuels (1994: 129).

the constitutionally granted prerogative to bring down cabinets which they found distasteful, were abolished completely. When the Self-Defense Forces were created in 1954, they were placed under the strict command of an all-civilian Japanese Defense Agency. As its name implied, the Defense Agency was denied ministry status and its director general was denied cabinet status. While the military voice in government has been severely circumscribed, powerful economic bureaucracies continue to enjoy the immense power once held by their pre-war counterparts. Not only does the Finance Ministry (MoF) fulfill the functions of the US Treasury, but it has direct ties to the central bank, has authority over taxation through the National Tax Agency and has immense power over Japan's national budget as well. The Ministry of International Trade and Industry (MITI), for its part, has a broad range of powers to regulate and coordinate Japanese industrial efforts and has no parallel whatsoever within the US bureaucracy. Moreover, both MITI and MOF have "reserved seats" at senior levels within the Internal Bureaus of the Defense Agency.

Japanese strategists have noted that Japan's history parallels the experience of European powers. In particular, the cases of 15th century Venice and 17th century Netherlands are frequently invoked. These cases suggest that, under propitious circumstances, state strength can be generated through trade. Thus, despite Japan's capability to generate substantial military power, there is no broad-based call for Japan to convert its economic strength into military power and assume leadership in all areas. Rather, many Japanese intellectuals have proposed Japanese strategy pursue a division of labor in international society. Amaya Naohiro, the late MITI official, likened the role of Japan to that of a merchant in Tokugawa Japan. "For a merchant to prosper in samurai society," he wrote, "it is necessary to have superb information-gathering ability, planning ability, intuition, diplomatic skill, and at times the ability to be a sycophant."[87] He also made sure to note that by the end of the Tokugawa era, Japan belonged to the merchants and the samurai had been reduced to poverty. Chalmers Johnson offers a particularly compelling

[87]Cited in Pyle (1992: 38).

insight into the similarities between Venice and Japan. Mercantile states, he argues, combine their military and economic power, but are more likely to fight commercial than political wars:

> "There are many striking similarities between old Venice and contemporary Japan. Venice was surrounded by larger, more powerful states that often used Italy as a battlefield, but it survived and preserved its independence by successfully combining a preference for peaceful trade with a willingness to fight with all its resources to preserve its independence. Modern Japan has likewise normally preferred commerce and all its wars had a commercial basis."[88]

Mercantile strategy is not easy to execute successfully. Certainly, it is not risk-free. Ambassador Okazaki Hisahiko, formerly the senior official at the Japanese Ministry of Foreign Affairs responsible for foreign intelligence, has observed that

> "The history of the Netherlands in the seventeenth century offers a sobering lesson for present-day Japan. It demonstrates how economic prosperity and technological superiority can make a nation the target of widespread jealousy--and shows the fearful consequences that can ensue. It made the Dutch Republic of the time the object of worldwide persecution and led that country into war with England and France, even though political common sense argued forcefully against such conflict."[89]

In Okazaki's view, what makes the Dutch case so significant for Japan in the post-Cold War world is the fact that the Dutch and English were ideologically similar and had been military allies against the Spanish threat. Clearly, Okazaki argues, mercantile strategy requires cautious foreign policy. Gotoda Masaharu, an LDP politician, has argued that such a strategy also requires prudent domestic policy, well integrated with the state's diplomatic policy:

> "While Mediterranean states such as Genoa, Naples, and Pisa fell one after another, Venetian prosperity continued, giving it a thousand year reign. What enabled Venetian prosperity alone to continue? First, Venice coolly faced the reality that there was no alternative path to making a living by selling their produce overseas. Accordingly, it pursued a wise foreign policy and made no missteps in its foreign policy choices. Secondly, its political and administrative apparatus remained in firm control, internal opposition was overcome, and a comparatively stable social order was maintained domestically. . . "[90]

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[88]Johnson (1984: 58).
[89]Okazaki (1990: 13).
[90]Gotoda (1988: 97).

Viewed from this perspective, Japanese efforts to exclude foreign firms from penetrating domestic markets and their willingness to pay a premium for high employment are more understandable. Japanese mercantile realism includes both measures designed to strengthen the technological, industrial, and financial underpinnings of power and measures designed to insulate Japanese society from forces that might ultimately jeopardize the state's ability to pursue such foreign policy in the long-run.

Although there is reason to identify Japan as a trading state, that identification partially obscures the fact that its actual trade volume is not particularly high. Japanese trade represents a smaller share of GNP than does US trade, despite the fact that the US economy is over twice as large as that of the Japanese and should therefore be more self-contained. Japan's trade/GNP ratio has long been lower than for most states, and of all the OECD economies, Japan is the only one in which imports as a percentage of GNP have actually fallen since the 1950's.[91] The point is that trade is measured in strategic importance, rather than in volume alone. If Japan is a precedent, the rise of the trading state may not lead to the open, non-conflictual, commercial world described by some liberal theorists.[92]

During the 1980's, books and articles on Japan held Japan up as the outstanding example of the country whose behavior undermined neoclassical economic theory. This paper suggests that Japan is also a difficult case for orthodox theories of security. Some aspects of Japan's foreign policy are difficult to reconcile with realist theory, when the primary motivation of state behavior is said to be military threat. Of course, structural realists do not claim that all states follow the behavioral imperatives of their theory; rather, they claim that any state which does not will pay a penalty. Japan may ultimately pay a high penalty for its apparent adherence to a different causal model of what makes states succeed or fail. Then again, by following a different, equally rational strategy, it may avoid these costs and emerge stronger and safer than ever. Until

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[91]Bergsten (1994: 55).
[92] Rosecrance (1986).

we can be sure of the outcome, however, any comprehensive realist theory should include the logic of techno-economic competition if it seeks to include Japan in the states the behavior of which it claims to explain. We might also note that mercantile realism has served Japan well during the period we studied.

Finally, we offer a caveat about the relationship of ideology and strategy. Centuries of Japanese technonationalism have taught that the evolution of grand strategy and the provision of national security are at best messy and uneven; the notion of "strategy" suggests more coherence than we actually observe. Yet, Japanese elites have responded to global challenges to national security with often extraordinary sagacity and consistency. As mercantile realists, they have judged their opportunities and have wielded their power in ways that may confound conventional analysts of foreign policy. The historical junctures when Japan's development and strategy shifted--the early Meiji period, the first postwar decade--were exceptional moments in which dramatic global transformations meshed with evolving national values. Today another transformation is under way. We are required to understand how ideologies, like strategies, derive from perceptions of threats filtered through memories of national experience and public institutions. While important choices are being made today, only the perspective of decades provides their coherence; only history makes these choices seem strategic.

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