# INTERDEPENDENCE CONTEXTS AND JAPAN'S ROLE IN ASIA: A COMPARISON TO GERMANY'S

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The Japanese policy of "open regionalism" in Asia has been stable and persistent for the entire post-war period, regardless of change in the international economy, which has brought the country to structural dominance in the region. Evidence suggesting that regional integration is increasing independent of international interdependence, such as Japan's overwhelming share of trade and aid, receding Asian dependence on the American market, and accelerating intra-regional economic integration through foreign direct investment (FDI), abounds.[1]

The odd coupling of dominance and a preference for economic openness is puzzling. Analyzing structural change, the rise of Japan's economic capabilities, Asian countries' reduced dependence on American markets and increasing intra-regional transactions, does not suffice if one wishes to understand Japan's preference for an open regional order. Why has the Japanese state failed to pursue hierarchical integration designed to exclude westerners and draw Asians under the unrestricted control of a Tokyo headquarters under which close collaboration between the government and business could produce economic development through a regional version of administrative guidance? Existing literature on Asian regionalism tends to focus on the structural asymmetry between Japan and other Asian economies and, then, to depict Japan's current relations with Asian countries in trade, aid, investment, and technology as precursors of a Japan-centered regional bloc.[2] These literatures find their theoretical foundation in the conception of power, originally developed by Albert Hirschman, that locates the sources of political dependence within an asymmetrical structure of economic interdependence.[3] Comparative studies contrasting European regionalism and Asia's openness and weakly institutionalized regionalism attribute the latter to Asian fears of Japanese economic dominance, which has been intensifying as dependence on the American market has decreased.[4] Close attention to the structure of Japan's interdependence with Asia and the global economy, however, suggests that Japan has a socioeconomic basis for preferring openness.

I argue the socioeconomic context that I will call *scope of interdependence* has shaped the regional policy preferences of the Japanese state and has left the state dependent on interdependent processes. Scope is a measure of unlikeness, not the quantity, of interdependent partners geographically and functionally. Japan's interdependence includes both much intra-industry trade with industrialized countries, which has been the main force behind post-war economic interdependence, and inter-industry trade with developing countries that complements the comparative advantages of various nations. Comparison with Germany in Europe will demonstrate that Japan's scope of interdependence in Asia is a product of the socioeconomic field in which global interdependence, of which the region is a subsystem, meets inter-firm production networks known as *keiretsu*, which have extended into the region since the 1980s.

## JAPAN'S GLOBAL-SCOPE INTERDEPENDENCY

Japan's international vulnerability is distinguished from that other major industrialized countries by its scope of interdependence. Alone, the scale and magnitude of Japan's interdependence suggest that the state is relatively independent and stands at a point favorable to manipulation of interdependence with the rest of the world. For example, the Japanese economy's dependence on international trade has been stable since the 1950s, with imports plus exports holding at around 25 percent of GNP, while the dependence of most major European countries doubled from 25 percent to 50 percent over the last five decades.[5] The scope of Japan's interdependence, however, has been extremely high, including both developing countries and industrialized countries, both inter- and intra-industry trade and investment, and mass production and flexible specialization. The Japanese state's post-war goal of economic development had to be coordinated with efforts to maintain global-scope interdependence: dependence on the American market; economic cooperation with Southeast Asian countries, while avoiding close economic relations with China; and reliance on the American-led multilateral financial regimes. These nodes of Japanese international relations form a circle, reinforcing and supplementing each other, blurring the distinctions between regionalism, bilateralism, multilateralism, and globalism. Asia has been, and is, a subsystem of Japan's global-scope interdependence, which international economic data suggests persists to this day.[6]

**TRADE**

In terms of extension and diversity, Japan's trade has been demonstrably more internationalized than that of other industrialized countries. As Figure 1 shows, Japanese trade, since the 1960s, has been almost perfectly balanced between OECD and developing, non-OECD, countries and has reached regions irrespective of distance. North America, particularly the United States, and Asia have been consistently major markets. Europe has increased in importance as economic integration has advanced, and Japan still relies heavily on the Middle East for crude oil imports. Especially noteworthy, compared to other major industrialized countries, Japan’s trade with regional partners (Asian developing countries and Oceania) has been far below than Germany’s and France’s, even slightly lower than the United States’.

In Asia, global-scope international trade is not limited to Japan, but is characteristic of almost all Asian countries. Since the 1970s, with the exceptions of Hong Kong’s imports, Indonesia’s exports, and Malaysia’s imports, no Asian country’s exports to or imports from regional partners have exceeded 60 percent, which seems to be a threshold for deep economic integration in Europe.[7] Thus Asian countries’ dependence on international public goods, especially international regimes for the stability of global ocean traffic, has been remarkably high.

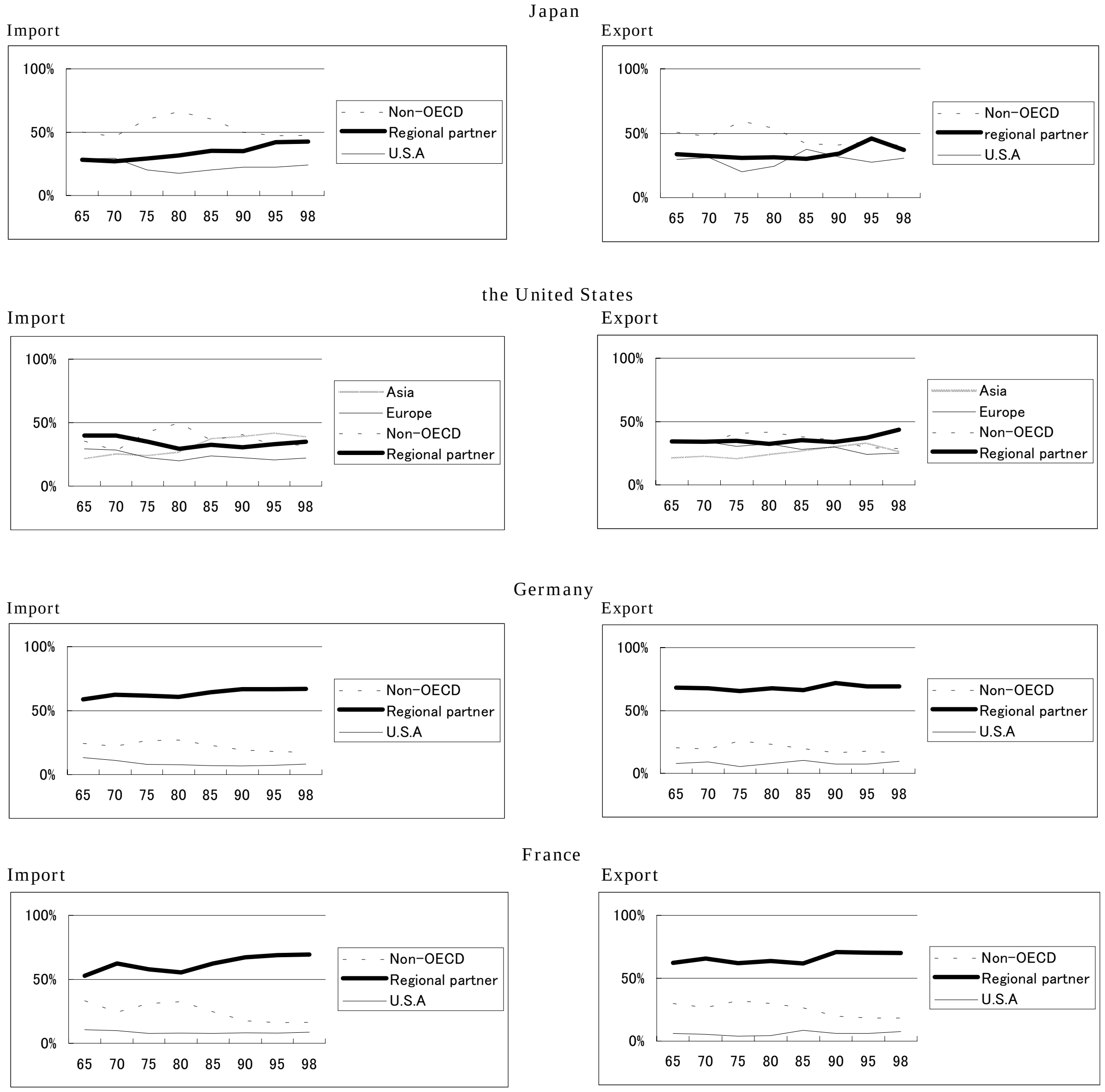


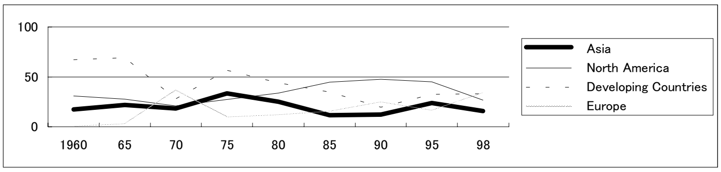

Figure 1
International trade by region, 1965-98

Sources: OECD, *Historical Statistics of Foreign Trade: Ser. A*, pp.44-47, 58-61, 68-69, 84-85 for figures during 1965-80; OECD, *Monthly Statistics of Foreign Trade (Series A)*, Jan. 1987, pp.50-53, 64-67, 74-75, 90-91 for 1985 figures; April 1991, pp.50-53, 66-69, 76-77, 92-93 for 1990 figures; Jun. 1997, pp.56-57, 60-61, 76-79, 88-89, 106-107 for 1995 figures; May 1999, pp.54- 55, 58-59, 74-77, 86-87, 104-105 for 1998 figures.

Notes: Japan's regional partner includes Australia, New Zealand, and Asian and Oceanian developing countries, U.S.A.'s, Canada and Latin America, and Germany and France's, OECD European countries.

## FOREIGN DIRECT INVESTMENT (FDI)

Like international trade, Japanese FDI reflects the state's reliance on global-scope interdependence. Japanese FDI has been aimed at industries in which the host country has a comparative advantage. Accordingly the sectors and countries to which Japanese FDI flows has shifted on a global scope in accord with the domestic "sophistication of industrial structures (*sangyo kozo no kodoka*)" from heavy machines and manufacturing to high-tech services.[8] Thus, Raymond Vernon's product cycle theory is better fitted to explaining the Asian, rather than the European, evolution of economic interdependence, since *inter*-industrial division of labor is still effective in the region. However, it should also noted that the destination and speed with which matured industries and technologies have been transferred from Japan to Asia has been far from single-track, ordinal, or regular, as product-cycle theory or the flying-geese economic development model predicts.[9]



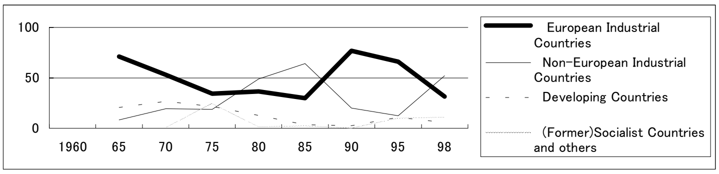




Figure 2
Japanese and German foreign direct investment (FDI) by region, 1960-98 (%)

Sources: [Japan] Ryutaro Komiya, *The Japanese Economy: Trade, Industry, and Government* (Tokyo: University of Tokyo Press, 1993), p.123 for 1960 figures (total of 51-61); Kotaro Horisaka, "Japan's Economic Relations with Latin America," in Barbara Stallings and Gabriel Szekely (eds.), *Japan, the United States, and Latin America: Toward a Trilateral Relationship in the Western Hemisphere* (Baltimore: Johns Hopkins University Press, 1993), p.55 for figures during 1965-90; Internet Home Page of the Ministry of Finance, Japan, http://www.mof.go.jp/fdi/, for 1995 and 1998 figures.
[Germany] Deutsche Bundesbank, *Statistische bihefte zu den Monatsberichten der Deutschen Bundesbank, Reihe 3: Zalungsbilanz Statistik*, Juni 1968, p.22 for 65 figures; January 1972, Sections 10, 11 for 70 figures; Janur 1977, Sections 9, 10 for 75 figures; Janur 1982, Sections 5b, 5c for 80 figures; Janur 1987, Section 5b for 85 fiures; Janur 1992, Section 5b for 90 figures; *Zahlungsbilanzstatistik*, Juli 1997, Section 9b for 95 figures; Juli 1999, Section 9b for 1998 figures.

Notes: Japan's figures are based on new investment in the year; Germany's, on net investment.

Figure 2 describes how the regional distribution of Japanese FDI has shifted from developing to industrialized countries. German investment has concentrated on industrialized countries, either in Europe or North America, with developing countries only marginal destinations. From 1960 into the early 1970s, Japanese overseas FDI was concentrated on efforts to extract raw materials in developing countries. For example, 65 percent of Japanese

FDI in ASEAN countries between 1951 and 1984 went to Indonesia's oil industries.[10] As Japan became capital rich, FDI flowed toward industrialized countries in both North America and Europe. Especially after the Foreign Exchange and Control Law was substantially relaxed in 1972, leaving Japan's capital outflows almost unrestricted, the volume of FDI in industrialized countries rocketed, and the share of developing countries shrank from 53 percent to 24 percent between 1980 and 1991. Together the United States and Europe claimed 61 percent of cumulative Japanese FDI during the four decades between 1951 and 1991. Japanese FDI in Asia constitutes only a small part of Japan's global investment. Even the big push of Japanese FDI to ASEAN countries in the late 1980s accounted for less than 10 percent of total FDI, and China, Asian NIEs, and ASEAN together claimed only one-third of Japanese manufacturing FDI in the early 1990s.[11]

Sectorally, Japanese FDI in services, such as banking, flags of convenience, commerce, real estate, and research and development (R&D), has grown 28 percent between 1976 and 1990, much faster than investment in the primary sector, 10 percent, or the secondary sector, 21 percent. In 1991, the service sector accounted for 67 percent of Japan's FDI, while services made up 59 percent of Germany's FDI and 47 percent of the United States'.[12]

Manufacturing FDI has dynamically changed in response to the reorientation of Japanese industries from manufacturing to services. First concentrated in Asian NIEs during 1985-87, manufacturing investment moved to ASEAN countries after 1988, and in 1995, China became the largest Asian recipient.[13] The geographical transition from NIEs, to ASEAN, to China was accompanied by a sectoral shift. Since the 1970s, Japanese investment in manufacturing machine tools in Asian NIEs has increased continuously, while funds to labor intensive industrial sectors, like textiles, have been moving from NIEs to ASEAN and to China, with massive FDI by Japanese small and medium enterprises (SMEs). In the mid-

1980s, in Taiwan and Singapore, machine manufacturing absorbed about 50 percent of Japanese FDI, almost equivalent to the pattern in the United States.[14]

The pattern of balances of payments traces the trajectory of Japanese financial mobility. From the mid-1960s to the early 1980s, Japan ran a surplus with the United States and Europe in both trade and long-term capital accounts, and it recycled the surplus to developing counties as capital exports. In 1983, Japan started recycling the trade surplus as long-term capital to the United States and Europe as well as to developing countries. From 1986, Japan started to record trade surpluses with developing countries, and, as a result, Japan's long-term capital outflows expanded. During the decade after 1980, when capital outflows were completely liberalized, the cumulative deficit of the basic account (current account plus long-term capital flows) amounted to $220 billion. Japan's role as a global financial mediator that recycles current account surpluses as long-term capital outflows remained unchanged, even as the domestic economy began to stagnate in the 1990s.[15]

**TECHNOLOGY**

In the context of global-scope interdependence technological autonomy connotes something other than autarky. In the Japanese sense, it involves finding the "right" partners and buying, selling, or transferring "appropriate" technologies, depending on the partner country's industrial sophistication. As with trade and FDI, the scope of Japan's technology interdependence has been global, including both industrialized and developing countries as technology partners. Since the 1960s, 60 to 70 percent of Japan’s technology imports have come from the United States, while the rest were imported from Europe; its exports have been divided between Asia, 40 to 50 percent, the U.S., 20 to 30 percent, and Europe, about 20 percent since the 1970s.[16] Thus, while Japan's exports to Asia have grown rapidly, Japan's long-term reliance on the United States seems unready to disappear. Royalty payments for

American licensed technology were three times receipts in 1987. The technology trade deficit with the United States stood at about $1 billion even in the 1990s. This is why, while Japan has sold more technology than it imported since the early 1970s, the overall balance of technology-related payments did not run in the black until 1993. Of total Japanese R&D expenditures, 55 percent was spent in the United States in 1990, compared to 21 percent in Europe, and 9 percent in Asia.[17]

On the other hand, technology exports to developing countries are characteristic of Japanese trade. Developing countries paid around 60 percent of Japan's royalties in 1980, while, Germany received less than 10 percent of its royalties from that source, and the United States, about 20 percent. Recently, Japanese technology exports to Asian countries have been growing, claiming almost half of Japan's total technology exports.[18] The magnitude of technology transfers to Asian developing countries have been complemented by the incremental and process-innovation skills extended through production networks between the Japanese and Asian firms.

## COMPARISON TO GERMAN CONTEXTS

A comparison of Japanese interdependency with that of Germany clarifies the ways in which differing socioeconomic contexts, both international and domestic, shape a state's preference for regional orders. Existing discussions often pair the two countries, treating both challengers to American hegemony or as sustainers of the existing international liberal economic order.[19] Nevertheless, analysis of three contextual factors--(1) the post-war historical path that determined the German scope of interdependence in world markets, (2) the institutionalization of regional integration that insulated Germany from global-scope economic turbulence, and (3) the domestic corporatist institutions that guaranteed state compensations for societal losses--shows remarkable contrasts in the contexts in which the two “trading states” have been embedded in the post-war international economic order.

The totally differing perceptions of the newly emerging international relations held by Shigeru Yoshida (1946-47, 48-54) and Konrad Adenauer (1949-61), the two leading political figures in Japan and Germany during the late 1940s and 40s, laid out the fundamental basis for Japan’s global interdependency and German regional integration. Deprived of pre-war eastern European markets, Germany had to have access to the large and stable market in Western Europe for its economic reconstruction following the war, and participation in European integration process was the precondition for that access.[20] Thus, while Prime Minister Yoshida separated economics from both political and security matters and understood post-war international relations as economic competition among nation-states, Chancellor Adenauer sought to protect German interests through political and military integration into Western Europe.[21]

In integrating Germany into Western Europe, the United States played a less direct role than it had with Japan in Asia. In the former it took "patronal leadership," while exercising "remote control" in the latter.[22] In Europe, the U.S. limited itself to the role of benign investor, providing seed money through the so called Marshall Plan (1947-52) for regional institutions to deepen economic integration, rather than directly helping to create trade and investment co-relations as it did in Asia. Of the institutions created with American sponsorship and European initiative, the European Recovery Plan (EPU) contributed to a large extent to German integration into Western Europe. Ludwig Erhard, godfather of the German economic miracle in the 1950s, initially opposed the EPU on the grounds that it would limit the scope of Germany's foreign trade and economic recovery, and even published a propagandistic work titled *Deutschlands Rückkehr zum Weltmarkt* (Germany’s Return to the World Market).[23] However, just as Prime Minister Yoshida's desire to return to China could not be realized, Erhard's vision of a globalized German economy was constrained by regional political dynamics. The fact that intra-regional trade and FDI in western industrialized countries has consistently accounted for about 60 to 70 percent of total German trade and investment during the post war era suggests the existence of a regional semi-autarky capable of sheltering Germany from dynamic interdependence with extra-regional partners (see Figures 1 and 2). Thus, German economic interdependence should be characterized as intra-regional and intra-industry trade among countries relatively similar in industrial structure, while transactions with developing countries have been marginalized. The unification of 1990 had little impact on the interdependence context: German FDI to the transitional economies of central and eastern European countries accounted for less than 10 percent of German total between 1992 and 1995.[24] Production networks in which technology is controlled and diffused to these countries in order to advance the national economy are of secondary importance after the emerging European polity.[25]

The German goal of creating a "zone of stability and growth in Europe" has been materialized through institutionalization of regional economic transactions.[26] Institutionalization of intra-regional economic exchanges that started in the early 1950s through the creation of the European Coal and Steel Community (ECSC), the European Atomic Community (EURATOM), the European Economic Community (EEC), and the European Community (EC) not only set political constraints on Germany’s power to rebuild its regional empire but also cemented the regional scope of interdependence that could insulate the economy from interdependence vulnerability to world-wide systemic disruption.

Particularly important in understanding German pursuit of a zone of stability is the European process of monetary integration. While John Ruggie has shown that the monetary institutions of the world economy are extremely skewed toward the dollar,[27] the picture of dollar dominance obviously fits better in Asia than in Europe. The German mark provided an important institutional base for monetary integration, while the yen’s internationalization has been astonishingly low, though rising, and the U.S. dollar remains the key currency in the Asian regional economic system. Since the 1960s, especially after 1962 when the EC commission first proposed the European Monetary Unit (EMU), Germany has been determined to make the mark the key currency in Europe. The cost that Germany had to pay to advance European monetary integration was acceptance of the mark's revaluation against the dollar--for the purpose of inflation control--in 1961, a decade earlier than Japan, which resisted the revaluation of the artificially low yen as an export-promotion vehicle until 1971. When Bretton Woods collapsed, Germany committed itself to European monetary cooperation, first, through the European narrow margins agreement ("snake"), then, through the creation of the European Monetary System (EMS) and its principal operating element, the Exchange Rate Mechanism (ERM) and the European Currency Unit (ECU), and finally through the birth of the Euro.

The internationalization, let alone the institutionalization, of the yen began only when American political pressures resulted in the Yen-Dollar agreement of 1984, which included concrete measures to solidify the existing international monetary regime, using the yen as a supplemental currency to the dollar.[28] Economic factors relevant to Japan’s global-scope interdependence such as its reliance on exports to the American market, the high proportion of trade with developing countries, and the large imports of industrial raw materials, fuel and energy, and food stuffs, the prices of which are usually in dollars, all contributed the low usage of the yen by Japan itself.[29] Only 40 percent of Japan's exports and 21 percent of its imports were denominated in the yen in the 1990s, almost a half of comparable German use of mark.[30] The situation of dollar-domination is similar in other Asian countries. For almost all Asian countries, yen-denominated exports and imports accounted for only about 30 and 20 percent of the totals in the early 1990s, though the ratio has been increasing since the mid-1980s, particularly for exports.[31] In short, Asian countries including Japan still fear "systemic disruption" of the current dollar regimes, while the Germans have created a regional monetary system through a deliberate political effort to institutionalize a zone of stability in Europe.[32]

Finally, German domestic institutions, which are rightly characterized as corporatist, complement the exterior construction of the zone of stability from within.[33] Unlike Japan's complex and information-rich institutions, Germany's are rule-driven and have institutionalized political opportunities for societal actors who are centralized at the federal level to participate in state policy-making and assure political compensation and subsidies for parties affected by external forces. The ideology of the "social market economy" sets up a clear-cut separation of power between the state and the society. Governmental intervention is a last resort unless societal actors request state assistance. Living within an international division of labor that is dominated by intra-industry trade with advanced regional partners, the German economy has felt little pressure for drastic shift in its industrial policy. In contrast to the major structural changes Japan has made, in the 1950s and 60s from agriculture and textiles to heavy industries and consumer durables change and in the early 1970s, to knowledge intensive industries, Germany has experienced only moderate changes, concentrated in the science-based industries such as chemicals, machinery, and automobiles.[34] To summarize, regional-scope interdependence and domestic corporatist compensations, both of which have been highly institutionalized in the German polity, constructed socioeconomic contexts in which the political stability of Germany in Europe is placed ahead of its economic development and industrial competitiveness in world markets.

**CONCLUSION**

Students of international relations are accustomed to hearing two standardized couplings: one between dependence, or asymmetrical interdependence, and national power and coercion; the other between complex interdependence and international openness and cooperation. This article has offered a new, but odd, linkage between asymmetrical interdependence and openness and cooperation. The primary puzzle of this article has been the Japanese state's persistent preference for open regionalism, despite its structural dominance in Asia. The realist's dependence theory suggests that recent structural changes in Asia should have inclined Japan toward the creation of a more exclusive, Japan-centered regional economic bloc, and away, though the change might be moderate and gradual, from open regionalism. The decreasing dependence of Asian, including Japanese, economies on the American market, the increasing intra-regional trade and investment among East Asia, ASEAN, and China, the widening income gap between Japan and the rest of Asia, Japan's increasing share of foreign aid among industrialized donors, and the spread of *keiretsu* networks in the region, all seem to offer a window of opportunity for the revival of the Japan-centered regionalism of the 1930s.

Relying on theories of international interdependence and industrial organizations and networks, I have argued that Japan's choice of openness in the regional order has been shaped by socioeconomic contexts in which Japan's scope-interdependence, both domestic and international, generates a kind of vulnerability that is shared within and between the state and the society. Japan's scope of interdependence includes both global-scope economic exchanges and highly dense production networks, which are now being extended into Asia. All of these interdependencies cannot be managed within a dyadic term. The political power that Japan could derive from asymmetrical interdependence with its Asian neighbors in trade, finance, and technology, is, in fact, constrained by both functional necessity and a subjective sense of vulnerability to a collapse of existing interdependence relations. In this sense, Japan has been dependent on interdependent processes.

Seeing Japan within the context of interdependency might tempt us to examine Japanese policy and politics from the perspective of societal liberalism, which has effectively characterized the German case. Unlike German interdependence, in which regional-scope interdependence and domestic social compensations have been institutionalized for the purpose of political stability and order, interdependency in Japanese terms can be read as a language of a societal state that pursues a national goal of development and prosperity through information-rich networks. Thus the Japanese political economy, based upon interdependence but not socially liberal, offers a novel way to look at the elusive conceptions of national power and interdependence in foreign policy analyses. For example, studies of Japan's diplomacy of natural resources show that its international vulnerability to unsecured oil supplies made Japan willing to sacrifice consumer welfare, which could have been realized by acquiring cheaper raw materials through spot markets, to the national goal of diversifying supply sources, while promoting energy-efficient technological development through business-government collaboration.[35] In the same context, neither technological development nor defense production has been regarded as monopoly of the state; embedding technology and defense within the context of inter-firm, inter-region, and international contexts has been a norm shared by government and business.[36] In the North-South dialogues, as shown in the discussions of the New International Economic Order (NIEO), while Japan opposed almost all proposals from developing countries that demanded authoritarian resource allocation, and eagerly supported a solution to North-South problems within existing international regimes, it attempted to establish escape clauses on a case-by-case basis to allow developing country to nurture indigenous industries.[37]

In the 1990s, the Japanese as well as other Asian polities and economies saw the loop that had connected their scope-interdependence and economic growth and prosperity for the post-war period loosening. The new political malaise, which the Japanese media call institutional fatigue (*seido hiro*), became most evident in the collapse of the Japanese financial system, the so-called convoy system, in the wake of the bubble economy of the 1980s. In the same vein, the economic turmoil in Asia that triggered the monetary crisis of 1997 made us recognize the discrepancy between on-going global capitalism and the network-based, Asian developmental state. If, as we argue, interdependency, both domestic and international, has been the source of economic prosperity in Japan and Asia, they will succeed only by continuing complex networking.

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[25] I am indebted to Peter Katzenstein on this point.

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