

Japanese & U.S. Roles in Sustaining World Economic Development

By Kojima Akira

History gaining Speed

The Cold War was a global war of ideology. It was, as it were, a World War III. It defined relations among nations after the end of World War II, splitting the world into the free-market bloc and the socialist/communist bloc. The Cold War ended with the collapse of the Soviet Union at the end of 1991, resulting in the Western free-market bloc's victory. "Viewed in the harsh eyes of history, Russia lost the whole of the 20th century," lamented Aleksandr Yakovlev, chief adviser to then Soviet President Mikhail Gorbachev. The end of the Cold War brought euphoria in the Western world. "Russia, falling on its knees, offered to join Western Europe as one of its partners. It's going to be an era of Europe," a victorious Western Europe said, dreaming of a "Great Europe" encompassing Russia. In the United States, there arose "end of histo-

ry" arguments, that U.S. values of democracy and free economy overcame every challenge and that nothing challenges those values any more, with the developments in history reaching a climax.

But the realities of the post-Cold War world are severe. For some time, how to establish a new world order was a hot topic. Now, however, a new world disorder is being argued. The threat of major conflicts among big countries such as the U.S. and the Soviet Union, nuclear war in particular, has gone. But conventional regional conflicts stemming from religious, ethnic and cultural differences have begun to occur rather frequently since the end of the Cold War. Russia's domestic reforms have not progressed as much as expected. There is an emerging view of China as a threat, based on the concern that Beijing may have begun to pursue hegemony-

oriented foreign policies. "History has not ended, but is gaining speed and contracting," says former U.S. presidential adviser Zbigniew Brzezinski. He warns that the course of history has become uncertain. "Such are the realities," he points out. It appears that euphoria has disappeared from Europe, with Euro-pessimism returning in its place.

Given such harsh realities, the need for cooperation among major nations has increased. Nonetheless, relations between the two economic superpowers, Japan and the U.S., have become strained over economic and security issues.

There have arisen a number of new global problems such as a new gap between North and South, environmental disruption, energy shortages, drugs, AIDS and regional conflicts. No single country, including the U.S., can cope with these problems. Closer cooperation



Photo: Kyodo News Service

Welcoming Vietnam to ASEAN—Japan and the U.S. making headway with direct investment in the Asian region.

is needed now between Japan and the U.S. to deal with such global problems. The fact that their bilateral relations are strained is cause for concern.

The alleged rape incident involving U.S. servicemen in Okinawa has developed into a more difficult issue than expected. Factors behind the development include the loss of a common target (or threat) to the two countries in the wake of the end of the Cold War. Another factor is that economy-first policies have emerged in the U.S., fanning Japan-bashing there and, as a result, fueling anti-U.S. sentiment on the Japanese side, which some observers see as a rise in Japanese nationalism.

During auto trade talks in 1995, antagonism on the U.S. side was strong among not only Japanese negotiators but the public as a whole because Washington unilaterally demanded Tokyo's concessions under the threat of sanctions.

It was against that background that developments after the Okinawa incident unfolded in a previously unpredicted direction. Findings of an opinion poll conducted after the incident (on October 15) by the business daily *Nihon Keizai Shimbun* contained some points of concern. Namely, as much as 40.2% of the pollees said the U.S.-Japan Security Treaty should be scrapped, up sharply from 28.7% in a survey taken just two months before.

It is essential for Japan and the U.S. to restore confidence in each other in order to cooperate in playing their global roles.

Correcting trade imbalances

It is necessary for Japan and the U.S. to correct their respective external trade imbalances. The two countries tend to turn their attention to their bilateral trade imbalance. But what is most important is Japan's current account surplus and the U.S.' current account deficit with the rest of the world. These imbalances constitute structural factors for instability of the world economy in the form of Japan's accumulated net external credits and the U.S.' accumulated net external debts, each

amounting to \$600-\$700 billion. And these imbalances are growing. They are changing into global problems, not just bilateral ones. As Stanford University economist Paul Krugman puts it, this is a sustainability issue in the world economy. There is no world economic stability without correction of the imbalances.

Post-Cold War poverty

Poverty and subsequent despair are some of the fundamental factors for international conflicts. Such conflicts become more tragic if poverty and despair combine with ethnic and religious confrontation.

Ironically, the end of the Cold War appears to be expanding economic gaps and creating a new phenomenon of poverty which may be called a post-Cold War type. Both East and West competed in aiding poor countries during the Cold War era because of the need to have as many countries as possible in their respective camps in fighting an ideological war. With the Cold War over, however, the world has begun to desert poor countries. The U.S. is suffering from "aid fatigue" while Russia, busy putting its own house in order, has neither the intent nor ability to assist poor countries. The amount of official development assistance (ODA) is declining in absolute terms among aid donors with the exception of Japan.

With the end of the Cold War, the time has come for global distribution of resources to be made through the forces of market supply and demand. But the market economy system does not contain a mechanism for rescuing the weak. Economic development is vital to ensure political and social stability. But direct investment does not go to politically and socially unstable countries that most keenly need it because such capital comes from the profit-oriented private sector. Poor countries are deserted here again. If the new type of poverty developing in that way is neglected, it becomes a factor in future conflicts. In order to resolve such a problem, it is important to seek public policy that goes beyond the market principle.

Low-intensity conflicts

Post-Cold War conflicts have changed in nature to ones that are difficult to control by the balance of power and nuclear arms. Conflicts stemming from poverty, as mentioned above, are a typical example. Nuclear weapons cannot eradicate poverty. Democracy and humanism alone cannot eliminate poverty. Neither can religion. If poverty and despair combine with democracy, there is a possibility of economic refugees emerging. If they combine with dictatorship, there arises the question of political refugees. Both cases become factors leading to global uncertainty.

The threat of a full-scale war between major nations has faded since the end of the Cold War. But conflicts between small countries, or those inside of a single country based on ethnic differences and other factors, have rather increased. These are called low-intensity conflicts which, along with the new poverty issue, must be addressed from a new viewpoint transcending the conventional imagination of the balance of power. In this connection, it becomes necessary to revitalize international organizations, though it is still vital for Japan and the U.S. to maintain a relationship of mutual trust.

Asian model for development & stability

Can Asia's experience be an effective model in solving the problems mentioned above?

Historically, Asia used to be a region of mutual distrust. Many low-intensity conflicts occurred in the region. Countries bordering each other constituted mutually potential threats. Social and political instability within one country was a threat to regional stability. One reason for such instability was that many Asian countries became independent after World War II and then began to rule themselves for the first time.

There was no common external threat in Asia even at the height of the Cold War. Therefore, Asia had no need for a regional mechanism for security coop-

eration, like NATO, in coping with a common threat.

Such an Asian situation of mutual distrust began to change in the late 1980s as countries in the region achieved economic development, each looking to the future rather than the past. Trade and investment within the region increased, accelerating development. Economic development in Asian countries made their people feel that mutual exchanges and interdependence were all part of the "plus sum" game.

As a result, relations among countries of the region have become stable and mutual confidence has been fostered. Guns have fallen silent in the war-torn Indochina region, where the phrase "from battlefield to marketplace" has become a common slogan. One of the developments symbolizing the changes of 1995 was Vietnam's admission to the Association of Southeast Asian Nations (ASEAN) as its seventh member.

Such economic development and future-oriented mutual confidence have brought stability to the Asian region as a whole, helping to form a regional security framework called the ASEAN Regional Forum, though gradually and in a non-binding manner.

Factors which have promoted Asia's economic development include assistance from Japan and direct investments and technology transfers by Japanese and U.S. businesses.

Globalization of U.S.-Japan Security Treaty

Arguments have surfaced in both Japan and the U.S. that the value of their security treaty may have declined with the end of the Cold War. Rather, the treaty has become more important for two reasons.

One reason is that the roles of U.S. military bases in Japan—and, consequently, of the security alliance—have shown some changes in terms of their practical use, as shown by their full use during the Persian Gulf War.

Americans complain that the security treaty benefits one side only, obliging the U.S. to defend Japan. But the above realities show the treaty has become

more than a simple bilateral arrangement. In contrast, the U.S.-South Korea security treaty is practiced strictly in a bilateral arrangement.

The other reason is that Asian countries hope that the U.S. will maintain its security presence for the sake of regional stability. China, back on the world stage after a two-century absence, is continuing economic development and military buildup. Calls for a continued U.S. military presence have been raised to counterbalance China's clout and to ensure a regional military balance. With many Asian countries wary about Japan becoming a military power again, some people point out the need to retain the U.S.-Japan Security Treaty so as to prevent militarism in Japan and to ensure sound relations between the two economic powers.

Global environment

The question of global environmental protection should be defined as a new security issue in the post-Cold War era. The threats of acid rain and AIDS have become far more serious and pressing issues than nuclear missiles flying from Moscow.

Energy is another issue associated with the environment. Energy shortages are a source of international conflict and mass consumption of energy threatens the global environment.

These problems have no national borders and are impossible to resolve with the efforts of a single country. The increased importance of this kind of security issue has prompted some experts to characterize it as the "greening" of security issues.

Stability of the international monetary system

This is associated with the sustainability issue mentioned before. How to maintain stability in the international monetary system is a common task facing Japan and the U.S. Economically, the U.S. is still a big power and militarily, the sole superpower. Against that background, the dollar remains a key currency regarded as the most important international currency.

But expansion of net external debts as faced by the U.S. today is neither sound nor sustainable. If left neglected, it will undermine the stability of the international monetary system and world financial markets. Although the strongest currency against the yen, the dollar continues to lose its relative weight in the world economy. In the future, the key-currency system will probably see some other currencies, including the yen and the German mark, join the dollar in forming a system of several key currencies.

Yale University Professor Robert Triffin has pointed out the dollar's liquidity dilemma. There is more than an ample global supply of dollars, thanks to the continued massive U.S. external deficit, but confidence in the dollar is eroding.

The Japanese currency enjoys good confidence, as shown by its recent appreciation, but it is absolutely in short supply, thus lacking the function of liquidity supply as required of an international currency.

The yen faces a situation similar to the dollar shortage just after World War II. To overcome the shortage, the U.S. recycled its external surplus through two channels—aid through the Marshall Plan and the opening of its domestic market for imports. Japan has increased ODA, but its recycling results are far smaller than that laid out under the Marshall Plan. For recycling, Japan has relied on direct and indirect investments and lending by businesses, including financial institutions, and the Bank of Japan's yen-selling, dollar-buying intervention in foreign exchange markets. But most of the recycling is through business; this is a commercial plan rather than the Marshall Plan.

Japan and the U.S. should move toward a joint Marshall Plan-type under which the two countries offer capital, technology and know-how to help resolve global problems, including stabilization of the international monetary system, continued world economic development and environmental protection. ■

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