

Reflecting on the 1990's: Japan's Lost Decade

by

Dr. Yoichi Funabashi

Yoichi Funabashi: Thank you, John, thank you very much for inviting me to this very prestigious occasion. I'm also very much delighted to share a discussion with my old friends Al and Mike. I really feel at home here because I have so many friends here and familiar faces.

Japan's Predicament of the 1990s

Today I'd like to focus on Japan's experience, predicament of the 1990s, which some Japanese have called the lost decade. Japan certainly enters into the 21st century still languishing in this most recent legacy from the lost decade. The Japanese economy is a serious problem and the lack of political dynamism also, and Japan's apparently very inadequate communication skills and communications infrastructure in this age of globalization. Japan's economic growth annual rate averaged just one percent between 1992 and 1999. It was really pathetic.

Japan's one-dimensional power, as projected through economic diplomacy and managerial worth, is long over. Japan has yet to find a new dynamic in foreign policy. People aspire to economic and social transformation, yet they have found those aspirations frustrated, very much a paradoxical combination of political instability and political immobility.

We have heard the reform, the "R" word, throughout the 1990s. Hosokawa reform plan of 1993, it was proven to be very much short-lived. So, there was a lot of

disenchantment and dismay to a lot of reform historians and politicians, as well as the public. Japan's most recent political tone, which Mr. Kato tried to put out his reformist agenda, yet found his support crumbling before his eyes, which also caused very strong, again, disenchantment with the politics and political reform. People seem to be infected with a greater sense of cynicism these days as their expectations, aspirations, one after another, have been betrayed.

Diplomatic Initiatives and Accomplishments

Certainly we have had some diplomatic initiatives and accomplishments throughout the 1990s. For instance, Japan's Cambodian Peace Initiative of the 1990s, the advent of APEC, the APEC summitry, even though that was a U.S. initiative. But it took Japan's and Australia's cooperation to bring it about. Japan's major first steps of reconciliation with South Korea, I think, were very important. Japan, China, and South Korea formed a summit, meetings in which they initiated this process three years ago, and now it's more regularized. I think that also is very much a significant step for more multilateral policy dialogue and process in Northeast Asia.

But we have witnessed more setbacks in the past decade. Needless to say, the crisis from the Gulf War was a rude awakening for Japan and for the Japanese public that economic wealth simply did not translate into geopolitical power and influence. The

U.S. criticized Japan for its checkbook diplomacy, which caused a lot of resentment on the part of the Japanese vis-à-vis the U.S. China's nuclear tests and Japan's reaction to that by suspending economic aid to China worsened that relationship between Japan and China.

In 1995, the 50th anniversary of the end of World War II, ushered in very acrimonious sentiments between Japan and China, and Japan and Korea over that history's past issues. Japan has found itself very much in a weakened position vis-à-vis these two countries and perhaps, to a lesser extent, with the other Asian countries on the history/reconciliation issue. Some Japanese politicians have made some very irresponsible, flammable comments on past issues.

Indian and Pakistan's nuclear tests also shook Japan's faith in a non-nuclear pact decree, which was also worsened by North Korea's missile tests. Japan's bid for the United Nations Security Council permanent membership, which seemed to gain some momentum in the mid-1990s, has yet again stopped. You can certainly name more setbacks in this long laundry list.

But I think the most critical issue is the change in the international order, which has put tremendous constraint on the Japanese diplomacy. It has also eroded Japan's confidence of its traditional foreign policy habits. I would like to put forth three cases of this change in the international order.

U.S.-Japan Partnership Has Become an Emotional and Political Arrangement

The first one is that the U.S.-Japan partnership and, perhaps, privileged relationship, which has formed at the end of World War II, particularly since the San Francisco Peace Treaty in 1952, has come to be very much an emotional and political arrangement, not just a matter of convenience. It was basically forged as a special arrangement between the victor and the vanquished. It has been very much a lopsided, not a real equal treaty, not equal partners; as Japan has been eschewed, its obligations to defend part of the United States. Instead Japan has been required to contribute to that alliance by providing bases, and since the late 1970s the host nation supports them.

But they have worked pretty well. But in this arrangement, and assistance, Japan always has regarded its status as very secure, being favored by the United States as the first partner in Asia. The predominance of Japan over China has been firmly set and incorporated. At least, that has been the perception that many Japanese have shared.

All of a sudden, since mid-1990s, this perception and this belief have been shaken as Japan has watched the United States trying to "forge" a special, strategic partnership between the U.S. and China. There has emerged some perception that this American pursuit of closer relationship with China will come at the expense of Japan.

Second, Japan's long-held view of its place and its role in Asia by using the lead flying geese imagery to describe its role in Asia. This is basically a picture in which

Japan is the first bird to fly, taking off in Meiji revolution/restoration 100 years ago, and then being followed by the second tier or group, Korea, Taiwan, Singapore and Hong Kong in the mid-70s. Then the third tier followed, that is, Malaysia, Indonesia and Thailand in the 80s, and finally, the rise of China. Japan has felt very comfortable with this image, because Japan has regarded itself as a primary interlocutor in Asia with the rest of the world and Japan as a leader.

Image of Japan as a Leader in Asia Has Been Jolted

However, I think this comfortable image has been very much, again, jolted, and confidence has been jolted as the globalization has changed the equation. For instance, take the example of the Internet, IT, it is a very much eye-opening experience to many Japanese to see India, Singapore or Korea taking a lead at a much more advanced, more rapid pace than that of Japan. The rise of China, certainly, has changed this very comfortable image.

Japan's traditional way of economic assistance also, ODA, Yen loans, and others has been much compromised and devalued, and its effectiveness reduced by this globalization drive in which the private investment has come to play a much more significant role in shaping, in changing economic growth.

International Order Based on Trilateralism Has Eroded

Third, the Cold War, international order based on G7, European-Japanese-American trilateral order, also has started to erode since the 1990s. First, inclusion of Russia into this new global order has

complicated and compromised Japan's relationship with the other two poles. It has been particularly complicated further as Japan's remaining territorial issues with Russia have remained unresolved. Then, increasing regional focus, both in North America and Europe, have also undermined Japan and Japan's standing as Japan simply has not had this regional leverage. Japan felt very much fearful of being squeezed out from this regional arrangement and economic integration in the early 1990s.

This year again, as it turned out to be, unfounded, as globalization and regionalism has developed hand in hand in the past decade, but at the end of the 90s, Japan feels again very much worried about being squeezed out, politically and strategically this time. Yet, Japan has not found Asian economic regional integration to be robust enough, to have some counter measure effect vis-à-vis both the United States and Europe. These changes in international order and its challenge to Japan now come in tandem with that serious Japanese political problem.

Let me just turn quickly to the Japanese domestic political situation and its problem in the past decade. We have had nine prime ministers in the past ten years. We may have the tenth or the eleventh in the coming year. But this political instability combines with a political immobility. As I said before, there has been a call for reform of Japanese politics throughout the 1990s. None has succeeded. Many people gave hope on Kato's challenge, yet felt very much betrayed and disenchanted. I do not think there are many Japanese pinning hope on political reform emanating from the Nagata-cho, certainly, yet they have not found the right political party to

represent the aspirations, particularly among the metropolitan area.

We all know the failure of economic clientalism inhibits economic development; we have seen those problems throughout the Third World. This clientalism, certainly as exemplified by Japan's long-standing practice of politics of public works, for instance, yet Japan has registered such a high, impressive growth in the past thirty years, up until most recently. So this conundrum actually can compel one scholar to declare that Japan appears to be a triumphant phenomena. But Japan, now in the current state of affairs, however, fits this theory perfectly.

Japan's political problems are also generational. The younger politicians, regardless of political parties, are much more proactive, much more cosmopolitan, and much versed with issues. Some are called *seisaku shinjin*, the policy newcomers, a new species. They're very good. They also have a more realistic outlook on international affairs, not too much ideological, which I think also makes a more promising picture. They also have a more balanced view of history, by which I also feel very much encouraged.

Lack of Critical Leadership in Japan

Yet, they have a serious lack of critical leadership in their ranks. Over the next five to seven years, we may not see dynamic political leadership coming from these ranks. We have had serious problems in the economy and IT and also social problems, for example, in education. Yet I think at the end of the day, the bottom line is that Japanese politics is at the core of the problem. In the past, the Japanese people, business people in parti-

cular, have automatically regarded politics as irrelevant and they were just as happy not to intervene in or be interfered by politics.

But that's not the case any longer. Unless and until they do something about these politics, then I don't think that Japan will really recover or revitalize its economy and social vitality.

The very fact and notion that Japan has to change has certainly sunk into people's mind and the one example is that Prime Minister Obuchi commissioned Japan's "Go Into the 20th Century" report. They analyzed the critical picture of Japan's predicament, and they also identified several major challenges to Japan and Japan's future, such as globalization and lack of sufficient global literacy and the rapidly aging society, the rise of China, and the others. Many people have accepted that premise, and identifying those major trends and challenges. They have also, in this report, several new proposals, such as direct election of the prime minister to infuse and incorporate these aspirations and preferences more directly into the popular politics.

In other words, reinvigorating the leadership function in Japanese politics that has been long overdue. More open policy of immigration is another. As Japan is now rapidly aging, we need to welcome and invite foreigners who are determined to work in Japan and live in Japan on some conditions. Even to make English as a second official language was mentioned. It spurred a lot of controversy. I, for one, as a member of this group went to discuss with Prime Minister Obuchi and many others. Unfortunately, the successor, Mr. Mori, in my view, has not paid any

attention to the report. I don't think he has ever read the report. We are very much frustrated with that. We are very much disappointed, and one or two of our members directly talked with Mr. Mori to encourage him to translate some of the proposals into policies, but so far, to no avail.

Japan has lost in the last decade. Actually, Japan is not that lost – at least, Japan does not seem to lose that much, and I think that's a cause of the problem. The Japanese economy's growth has been very much miserable, but savings are still very high – the saving rate, people are still saving – the Japanese manufacturing sector is still, I think, very much a formidable machine. The Japanese population has not started to decrease, it still has increased almost now 20, 22% practically. Some Japanese diplomats entertain, cherish the desire to see Japan's value to the U.S. being elevated when the Republicans will be in the White House as the Republicans have been in favor of re-activating, putting more emphasis on the U.S.-Japan relationship, unlike the previous administration, so they are hopeful now. They don't feel that they are necessarily in such a disadvantageous position.

So if I have written very critical picture of Japan, they say "Funabashi just relax, take it easy, Japan's predicament is not as bad as you portray." But I think this complacency factor is the most serious problem Japan confronts.

Policy Makers Downgrading Japan And Upgrading China

First, expectations in almost all of the capitals of the world, the strategic thinkers, policy makers, are now changing the strategic calculations of downgrading Ja-

pan and upgrading China, because they do not too much worry about Japan's plight, at this point. They are more worried about the future of Japan. The trend, expectations already have been changed.

Next, Japan's investment, a lot of investment in education and human resources, in other words, investment in the future, has been reduced. Particularly the global literacy function is not sufficiently invested compared to other Asian countries, not to mention the advanced societies investing heavily in the future.

One of the most striking instances in the 1990s, in my view, is not the Aum Shinrikyu terrorist attack nor the Hanshin great earthquake – that was devastating too, mostly because of the magnitude of the casualties, but more than half of those who were killed were over 60 years old. It hit so harshly the socially disadvantaged, socially weak, and Japanese society could not do much about that.

So it was not enough. But what I was shaken about the most was that the mother and child being starved to death in the Tokyo metropolitan area without any help from the local government, from the community, from relatives, nobody. The mother was 77 years old and with a handicapped child, a son, a 40-year-old son. Her husband died ten years before. He had worked for some minor company and he had a managerial job. But all of a sudden he died. When he died, she had 120,000 dollars saved. She used that up in eight years and the last thing she had, she kept were the diaries; that's why it was so shocking, and I read the diaries. And the last day she wrote in the diary, the day she died, she had only 26 yen, 20 cents.

Japanese Society Has Weakened Its Social Fabric

I really think that Japanese society has weakened its social fabric and that public space also has been very much dying. We have been talking about that bubble that burst in the economic field, but I also feel that we have been seeing that bubble burst in social terms, too.

I'm afraid that I may convey a little too pessimistic view of Japan, which I do not want to do. But I just wanted to share my thoughts and impressions on the Japanese lost decade with you today. Thank you very much.

Alan Romberg: Thank you very much. I think the size of this turnout sort of echoes the reason that, despite the fact that I'm not directly working on a lot of these issues right now, that John Ikenberry put the arm on me to be a commentator. When he said it was for Mr. Funabashi, it kind of answered itself. I feel it's a great honor to be here with him and he's an old friend and a colleague, and I appreciate the opportunity.

I had done a little research ahead of time to try to figure out what Funabashi would say and I therefore have done some preparation ahead of time, so you'll forgive me if I pay some attention to it. He spoke largely for Japan on what Jimmy Carter used to call for the United States "malaise."

To repeat a little bit of what he said, he talked of intractable problems like dynamism, inadequacy of skills, and infrastructure, the relevance of Japan's predicament as a one-dimensional power. Confidence has been jolted, he pointed out, by stag-

nation, and social and economic transformation has lagged behind the pace of globalization. Aspirations are frustrated by political instability and immobility. Japan is inwardly focused, lacking in self-confidence as well as in confidence in the efficacy of the U.S. alliance, regional diplomacy, and what I call the G7 trilateral supporter.

As he put it most succinctly in one of his pieces, there's no doubt that Japan is trapped in a deep sense of stagnation and vulnerability on all fronts. Pointing to the rapid and dynamic changes in the region, he says the next decade is going to determine whether Japanese foreign policy can recover its balance. He strongly implies, of course, it's essential that Japan do so, but as we heard, he lacks great confidence that in fact that is likely to happen.

I'm not going to try to assess in any detail his analysis of the past decade. I think maybe Mike will be doing a little more of that. But I guess in general it's a bit more downbeat than I would be. But in any event, what I'd like to do instead is to spend the next few minutes talking about the coming decade and try to look at the challenges Japan will face.

Most Important Foreign Policy Issue for Japan Is Alliance With U.S.

He put a great deal of emphasis on the alliance, and I'd like to talk about that. And coming from an American perspective, I tend to think that the most important foreign policy issue for Japan is whether the Japan-U.S. alliance flourishes, stagnates, flounders, or even founders. The answer to that question, of course, is going to have profound implications for the United States and for our foreign poli-

cy. But it will also say much about Japan's national security, its economic prosperity, and its political role in the region and, indeed, in the world.

One might criticize this as an American-centric view – so be it, I think it's realistic. The recent so-called Armitage-Nye Report made a strong recommendation that in the next four years the United States assign a higher priority attending to the alliance, giving substance to what I think is the reality that our relations with Japan come ahead of our relations with China in the region, but also laying down the marker that we will likely ask more of Japan as part of the process. I think we need to ask whether either the American side or the Japanese side of that implied bargain can be fully sustained.

The call for greater attention to Japan and to treat it as an equal partner is hardly new. It's one that many of us in this room have made many years making. The difficulty we've had – and despite the best of intentions, I think the difficulty the next administration will also have is that for all of the specific problems, when viewed in the larger context, our relationship really is pretty sound. It is not what one might call a squeaky wheel that can compete with some of the more urgent crises that our senior-most officials must cope with on a daily basis.

I don't think any American president, secretary of state or secretary of defense, if pressed to spend a moment or two on the alliance, would come to any conclusion other than that our alliance – and by this I mean the broader relationships, political, economic, and security – our alliance is absolutely crucial to American national interests. It's pretty self-evident. But gen-

erally, as I say, it seems to be in pretty good shape, and therefore not needing or meriting a lot of attention when stacked up against the other difficult issues around the world. This may not be the smartest approach for people to take, but my point is simply that it may be a realistic appraisal of how things are viewed in this town.

Another, perhaps somewhat more delicate point, but I believe merely building on a point that Mr. Funabashi made, is that given Japan's lack of vision about the future and about Japan's global image, it's very hard sometimes to have meaningful strategic dialogue at very senior levels. I should hastily note it's not hard at all to have such conversations with a number of individuals who are either political leaders, or senior bureaucrats, or public policy commentators. But with some important exceptions, my sense is that presidents have not found it universally worthwhile to take the time to try to engage in the kind of deep exploration of issues the Japanese characterize as their conversations with some others.

As you have heard, the United States has, on more than a few occasions, wallowed in its instinct for the capillary, discussing trade, automobiles, apples, and such pressing national concerns as flat glass to paper. I don't mean to say these issues shouldn't be addressed. Obviously, they are important for the daily management of the relationship. But it strikes me that with rare exceptions, they are not appropriate topics for summit level or even ministerial level discussions.

Rise of China Challenging Issue for Japan

As many people, including Dr. Funabashi has pointed out, the rise of China and the need to adjust to the implications of that new reality is perhaps the most challenging issue that we're going to face in the Asian Pacific region in the coming decades. Here, perhaps, I disagree a little bit with something he's written elsewhere, where he identified the Korean Peninsula issues as the most acute preoccupation for Japan over the coming decade. Certainly, issues potentially of refugees and other questions of that sort are significant, but in a fundamental sense I would argue that even in the immediate future, before China reaches its full potential, its role and its behavior will be of utmost concern, the possible crisis in the Taiwan Strait obviously at the top.

Many Japan experts in the United States have pointed out Japan feels an urgent need for a high-level dialogue about our respective China policies so we're as coordinated as possible and, in any event, so there are no surprises. Again, this is not a new issue, and one can hardly argue with the general notion.

But what is it, again, that we're going to talk about. We can reassure each other that we both want to see China integrated, as an active and constructive member of the international community. We can agree that a more open China, respecting the rule of law in all areas including civil rights and economic relations is something we can carefully promote; it's in our respective common interests. We can point to the crucial importance of seeing China become part of the solution, rather than part of the problem in areas of trans-

national importance, such as environmental pollution, drug trafficking, piracy, corruption, and terrorism.

Frankly, that's easy, and we should do it. But the hard part comes, for example, if China doesn't cooperate in some of these important areas. What then? And most consequentially, what happens if there's a military confrontation in the Taiwan Strait? Individual Japanese and even some institutions, private and government, have responses to that question, or all of those questions. Funabashi addressed them in a recent interview with the *Taipei Times*.

I'm not at all sure that Japan, as an entity, as a nation, has answers, any more than I'm sure the United States, as a nation, has an answer. But whereas Americans, ready or not, will often sit down and talk about such questions and provide answers on the spot, I'm not sure that Japan is ready, and I welcome thoughts from the folks up here and also from those of you in the audience.

Let me interject here: I do not see an inherent contradiction between American and Japanese interest in our policy toward China. It is in America's interest that Japan seeks to live peacefully and as cooperatively as possible with China. And as the deputy foreign minister recently wrote, "Good U.S. relationships with the PRC are in Japan's interest." But as Funabashi also suggested, some Japanese resent what they see as U.S. movement away from Japan toward China.

I don't think, frankly, we're doing that. But if that's the perception, it needs to be corrected. I would not, however, support the notion of some Japanese observers that Japan should cultivate good relations

with China in order to force the U.S. to take Japan seriously, or that Japan could, or should serve as a bridge between China and the United States. These are things that Japanese writers are talking about.

Alliance Is Priority For the U.S. and Japan

Japan doesn't need to choose between the PRC and the U.S. nor does the U.S. need to choose between Japan and China. But both of us may have to choose between giving priority to our bilateral alliance or to relations with China. For the U.S., despite concerns and criticism by some, the choice, in my mind, is easy. It's the alliance. I think the same is true for Japan. But whereas nobody serious in the United States is advocating a change in priorities, as I read what Funabashi and what others who are very thoughtful have said, there are, in fact, now voices in Japan calling for a re-examination of Japan's priorities, and we need to pay attention to that.

Going back to the main thesis of this evening, I think the point about the difficulty for Japan to feel comfortable asserting itself in a leadership role when it's been in such a prolonged economic slump is a fair one. I would note in that connection that some of our economic analysts see Japan on a stronger path at this point. I would disagree. I'm not qualified to enter into that argument. But I think what I can say is that for all of its problems, Japan remains not only a crucial, driving economic force for the region, but a country with the underlying economic strength and the technical expertise and intellectual talent that is so obviously needed that it not only can, but has the responsibility to bring actively into play.

Over the past couple of decades, I've simplistically argued that the solution to American problems is an important measure of leadership. All the knowledgeable Japan hands say, "Well, such an approach could work for the United States, but it really doesn't have much prospect of being realized in Japan." Still, as a member of the commission and as an individual, Mr. Funabashi can call as he does for such radical changes as a more open, immigrant-friendly, individually responsible and globalized Japan, I feel no hesitancy in putting forward the less radical notion that one of Japan's greatest and most urgent needs is leadership that not only can make courageous policy decisions, but can also inspire the Japanese people to face up to what Mr. Funabashi has called Japan's moment of truth. Thank you very much.

Mike Mochizuki: I would also like to join Alan in expressing my delight in being part of this program and also to say what an honor it is to be on the same panel with Mr. Funabashi. The bane of being the last speaker is that after following two very good presentations is that there really isn't much more to say, and so I'm struggling here to come up with additional remarks. So I think what I will do, is having known Mr. Funabashi for, I guess, 25 years now, is to offer an alternative view of what has been happening in Japan.

U.S. in Danger of Underestimating Japan

I think in the United States, ten years ago, we were in a stage of overestimating Japan. With the collapse of the Soviet Union, many Americans began to see Japan as a looming threat to U.S. interests. I

think today we are now in danger of underestimating Japan, and I fear that Mr. Funabashi has been reinforcing that view in the United States of underestimating Japan. And so what I would like to argue today is that the 1990s have not been a lost decade for the Japanese in terms of foreign policy, although I do agree that there have been many problems on the domestic front.

But in terms of foreign policy, the last ten years, from 1990 to the year 2000, has been the productive decade. If we were to meet 25 years from now, I think historians would look back on the 1990s as an era when Japan took a series of breathtaking initiatives. Little to the recognition of American analysts, in trying to achieve what is Japan's ultimate aim is to build a congenial environment in East Asia for Japan's long-term commercial and security interests. Funabashi already mentioned some of those, but I think he was much too modest about Japanese achievements.

Japan Played a Key Role in Establishment of APEC

First, in the economic realm, I think Japan played a key role in the establishment of APEC. Now, I believe in 1993 APEC was hijacked by the United States and turned into a trade and investment liberalization instrument, but I think the main purpose, from the Japanese point of view, was to stop any slide towards a system of exclusive, closed, regional blocs, so they were very much concerned with what the United States was doing with NAFTA.

So in that sense, Japan was imminently successful in achieving its aims with the construction of APEC. In addition, Japan

expanded its production networks throughout East Asia, and despite the tsunami of the East Asian economic crisis, has managed to provide enough capital to sustain those production networks. As East Asia has begun to recover from the East Asian economic crisis, Japan was tapped to take advantage of the commercial benefits that the East Asian rejuvenated growth had to offer.

Japanese Push for a Regional Financial Structure

Also, during this decade one could argue that Japan has suffered a temporary setback by the United States when the United States opposed the Japanese initiative for the ASEAN monetary fund. But without jeopardizing its relationship with the United States, during this so-called lost decade, the Japanese moved persistently forward in trying to create a regional, financial architecture that would somehow mitigate the possibility of further instability in international financial markets, with respect to East Asia. And some of this happened in the context of the ASEAN Plus Three, and I think historians will look back and see the Chiang Mai Agreement as the beginning of this Japanese push for a regional financial architecture.

I think 25 years from now historians would also look at the Japanese push to embrace free trade areas and the relationship that Japan was developing with Singapore as the first step toward deepening economic integration with East Asia. So, in many ways, the last decade was a productive decade as far as foreign economic policy.

Decade of Remarkable Achievement on Security Front for Japan

Even on the security front, I would submit that the last decade has been a decade of remarkable achievement for the Japanese. Many were worried that after the end of the Cold War, the United States would disengage itself militarily from Northeast Asia. But instead, the Japanese worked with the United States in reaffirming and restructuring the alliance so that it became unthinkable for the Americans to disengage militarily from East Asia, despite the demise of the Cold War.

Mr. Funabashi already mentioned the Japanese initiatives in Cambodia. These were initiatives that caused some consternation in Washington, D.C., but Japanese diplomats were quite confident and moved forward to really serve as the honest broker in Southeast Asia when the United States was so tainted that it could not serve that role.

The Japanese also promoted the idea of a regional security dialogue, much to the chagrin of some officials in the United States. This then was virtually resisted by some countries in Asia, but it became the ASEAN Regional Forum, and probably 25 years from now, historians will look back and say that this ASEAN Regional Forum was the beginning of the development of a regional security community in East Asia.

Also during the last decade, the Japanese moved to repair the historical relationship with Korea, and created what some people called a virtual alliance between Japan and the Republic of Korea and the United States. This virtual alliance eventually evolved into a Japanese-Korean partner-

ship that became the cornerstone of stability in East Asia, similar to the French-German relationship being the cornerstone of stability in Western Europe.

Also, I think 25 years from now historians will look back at this last decade, and they will point to the way that Japan gradually normalizes itself as a security actor in the region without really upsetting the balance of power in East Asia. In this very delicate exercise for Japan, they did quite well.

In terms of China policy, of course, this is the biggest problem for the Japanese, and I agree with Alan Romberg that it would be very difficult for Japan to serve as a bridge between the United States and China. The United States does not like any bridges to come between it and other countries. But I would submit that it was during this period that the Japanese began to fashion a very steady, normal relationship with China that served as a stabilizer at a time when Sino-American relations were entering a period of great volatility and instability.

Japan Began to Grapple With History Issue During Last Decade

Third, on the history issue, the last decade, I would submit, was a decade when Japan finally began to grapple with the history issue. Although because of this grappling, a lot of neo-revisionist historians in Japan tried to relativize Japanese atrocities during World War II, in the final analysis, it was during the last ten years that the Japanese finally began to give unequivocal apologies for the past, began to include analysis of Japanese aggression and atrocities in school textbooks.

It was also during this time that the Japanese in public documents finally began to acknowledge that Japan engaged in a war of aggression. So it was in the 1990s that it wasn't that Japan tried to deny history, but for the first time, began to recognize history and give unequivocal acknowledgement to the problems of the past.

Now, of course, one area in which Japan probably fell short during the 1990s is in terms of fostering cultural and social linkages with East Asia. And I would agree that Japan has still been shackled by an ethnocentric brand of nationalism. But even here, I think the 1990s was an era of progress. Japanese popular culture has become much more popular in East Asia than ever before, and through that, the consumers of East Asia became much more willing to accept Japan, not just as an economic model but as a social and cultural model.

It was also during the 1990s that the Japanese realized the importance of opening up the educational system to people in East Asia and finally began to make the first steps at welcoming East Asians to enter Japanese society. In the final analysis, of course, there were a lot of things wrong in Japan during the 1990s, this decade, but it's far from a lost decade. There was indeed a productive decade.

Finally, I would like to make one point about Japanese leadership. Because of the problems of the past, I think Japan has been exceedingly modest in the way it's exercised its leadership. And I think one of the brilliant aspects of Japanese foreign policy is that its ambitions have not exceeded the means it was able to bring to bear in foreign policy. And so, in the end, during the 1980s, Japan's aim was, to use

the phrase, "to lead from behind," and in that sense Japan has led brilliantly.

More Countries Welcome Japanese Leadership

In the coming decade, some might argue, that the relative decline of Japanese economic power might make Japan less able to lead. But I would take a contrary view, that because Japan is less of a dominant economic power in the region, and because China is on the rise, more and more of the countries of East Asia are welcoming and receptive of Japanese leadership. I expect that in the coming decade, Japan will continue to exercise the kind of positive leadership that it has shown through the 1990s. Thank you.

Q & A

John Ikenberry: First of all, I'd like to announce that we will be reconvening this meeting in 25 years. Anyway, we have some very prominent arguments on the table, I think rather than ask Mr. Funabashi to respond directly, immediately, instead we'll open up for questions. And then we will allow for our main speaker to weave in his response to our two discussants as we go along. The floor is open now.

Questioner: Dr. Funabashi, to break away from the current problem in Japan, there is something I think we have hoped for the future. That is decentralization. That is, instead of a traditional, centralized Japanese society. Some local governments away from Tokyo, for example, have been developing different types of administrations. I wonder if this would, could really change. I know there is a problem culturally, namely individualism versus

the group. So is it possible for Japan to get away from this current inability to make progress in this decentralized approach in terms of administration, politically, as well as socially? Can you explain how to discuss this matter and assist that possibility to work for Japan or not in the future?

Funabashi: Well, thank you very much for the question. I think it's a very good question. Actually, that which is Japan's goal in the 21st century report emphasized the critical importance of decentralizing Japanese government and public service. I firmly believe that Japan needs to decentralize, but, unfortunately, what we are now witnessing is the very much opposite direction, to consolidating some 22 government agencies into 12.

We are now going to have a huge behemoth of government agencies. For instance, MPT, and the Interior Ministry, and the Ministry in the General Administration Affairs are now forming up, merging. It's a huge administration, an agency now, coming into being. As this merger is taking place, when it was conceived it did not take into account the great impact of IT or technological breakthroughs.

So I think it's totally unnecessary now, but that's the reality. So I hope the local governors will make a much stronger case and voice. We have heard some like Ishihara of Tokyo, and Hashimoto of Kochi, Asano of Miyagi, and now Tanaka of Nagano, those governors, but I think they are very much isolated and sporadic.

Japan Talked Too Much About Reorganization

But having said that, I feel inclined to say that we, in the past, the Japanese have talked too much about this organization, the reorganization, or administrative reform things in the past decade or so. I think what we need is leadership, and the education of leadership, what we have been talking about, the contents. We need to talk about the contents, rather than the box or the form. The Japanese politicians, bureaucrats, journalists, public intellectuals are so eager and enthusiastic to talk about those reforms, but I think now it's time to focus on the content and education and leadership.

Questioner: Mr. Funabashi, I was surprised that you did not say too much about some of the new regional developments in East Asia. And Mike brought those in and I'd like to get your reaction to them. It seems to me Mike is right in saying that we're en route to an Asian monetary fund. The original Japanese proposal in '97 was rejected by China and others, but now clearly seems en route, including very close Japan and China cooperation, mutual support for their currencies, a hundred billion dollars in swaps, etc., that's close to fruition.

In Singapore three weeks ago, there was agreement at the Ten Plus Three Summit to study an East Asian free trade area, or an ASEAN China free trade area – the counter from the ASEAN was to include Korea and Japan, and so that apparently is under study, and Japan has already been talking with Korea, etc. There has always been within Japan some tension between those who want to focus on Asia, and those who want to focus on the U.S.

What's your take on how that's going to evolve and how that set of issues is going to affect Japan's role in the region, it's relationship with the U.S., and the whole set of things that you talked about, in terms of Japan's own future?

Funabashi: I don't think ASEAN Plus Three has some grand design or has a strategic picture. I think it's basically more defensive to Japan-Singapore, Japan-Korea, sub-regionalism. And I think it's basically upon China's more political and strategic venture to counter-measure the U.S. unipolar diplomacy and make the U.S. presence in Asia more uncomfortable.

East Asian Regionalism Should Evolve

I think we have not overcome that mounting challenge from ten years ago, yet. I think that the actor has changed. We have the Chinese to push for the similar "Asians only" approach. My view and my take is that as far as APEC should be reinvigorated, as far as the U.S.-Japan and the U.S.-Korean alliance should be maintained and be much more strengthened, and the U.S., also, the multinational forum and framework in both the economic and security arena of the United States being a critical part being promoted, then I think we should allow the East Asian's regionalism to evolve.

But I think we always should be mindful of strengthening linkage between those subregional free trade agreement types and also East Asian groupings, and the more generally Asian-Pacific open regionalism and the global framework such as WTO. To Mike's question, yes, I think Mike certainly hit the point that the APEC summitry and APEC process have been

very positive and constructive development throughout the 1990s.

But at the same time, Japan has not done good service to strengthen the APEC function, particularly in that liberalization field, as exemplified by Japan's failure to commit to EDSL in 1998 and lack of commitment to that liberalization process in more general terms.

So Japan is not alone to be blamed. I think that China, also, has always used the Taiwan issue as a litmus test, and China has played sort of a nuisance value, not deeply committing to the APEC process. The United States also has disappointingly been lukewarm and passive. Clinton did not attend the APEC meetings, twice. So we all are sinners, but to make a long story short, I think that Asian regionalism basically has been developing in the right direction with a new understanding of varieties. And the critical importance is that the leadership from Japan and the United States should push for open regionalism and also strengthen the link between those varieties, the multi-layer of regionalism within the region.

Questioner: Getting back to the domestic stagnation in the political and economic field. That, I think, is not something that we have much disagreement about. What factors will bring about the kinds of fundamental changes that you're talking about and will keep Japan from having another lost decade up ahead of us? Will it take some kind of shock, some kind of major outside factor, or do you see internal changes that might produce the kind of changes that you want? You talk about leadership, but where is the leadership going to come from? What sort of people can you point to in the past decade or de-

acades who have the kind of leadership skills that you think might be appropriate for producing the kinds of changes that you want to see? Thank you.

Public Debt Could Have Strongest Impact on Japan's Political Picture

Funabashi: Well, this is a really difficult question. But, if you envision an apocalyptic scenario, I think public debt could have perhaps the strongest impact on the Japanese governance and political picture. It's already appearing now. Japan confronts 130 percent of the GDP, the public debt now reaching that point. One of Kato's challenges is, was designed to make the public keenly aware of this public debt issue. It's political dynamite. Even though he failed, I think the public now has come to be much more aware of the danger that this public debt could cause or incur on Japan in the coming years.

I think it depends, also, it perhaps depends on how the next U.S. administration could see the policy implications of converging public debt on Japan for the Japanese economy as well as for the U.S. economy. In the Clinton administration they have, in a way, condoned or allowed Japan to pursue fiscal stimulus, package after package. I'm not too familiar with the Republican thinking on this issue, but it has been reported that Lindsey and the others are more interested in rectifying Japan's public debt indulgence. It could be very risky; if it's too visible, the market would react very much violently. It could cause a depression, but I think that's one way to do it. But there has emerged internal pressure in Japan to demand that something should be done about the public debt. That has

been very much a different picture in Japan compared to two or three years ago.

Another drive would be the further development of the globalization of the Japanese economy and society. Globalization certainly is working to the advantage of the metropolitan area of voters and the younger generation of politicians, as it certainly will invite more power diffusion into Japan and bring about more new players into the Japanese political system. We have already seen some stronger voices for NGOs than others. In the last election, two or three incumbent ministers of the LDP were defeated in the metropolitan area. So this is, I think, perhaps a new direction, and the globalization will certainly accelerate the pace.

Perhaps one more drive would be Japan's much profound economic integration, market integration with the United States. If Japan and the United States would form or would explore that free trade agreement and a similar arrangement – after the Japan-Singapore free trade agreement is concluded, I think that's perhaps a certainty – there will be loud arguments about merits and demerits of forging that free trade between Japan and the United States, or between Korea and Japan and the United States and NAFTA, in the coming years. I think that also could have a huge impact on the Japanese political scene.

Questioner: What will bring about fundamental reconciliation between Japan and China? Will there be internal changes inside China or are we meant to reassess its national interest or other structural changes in the international system?

Funabashi: I think you are the expert on that; you really wrote the definitive book on that. I think China's democratization and eventual process for democracy is very critical. Besides, Japan's decision to reconcile with China, not only on history issues, but on the other issues, including rivalry issues and territorial issues – there are many, many other issues unresolved.

In the case of the U.S. and China, the Taiwan issue will remain to be most thorny and could be very much disruptive, as Adam cautioned, and I agree. But once the Taiwan issue could be compromised in some way like others, the U.S.-China relationship will be much smoother and will develop in a much more rapid way than the China-Japan relationship. The China-Japan relationship has carried over territorial issues, for instance, which the United States doesn't have with China, and history issues, as you mentioned, which again the United States doesn't have with China. We, as both Asian major players have a natural tendency for both China and Japan to be in rival position.

Japan's Steps Toward Reconciliation With South Korea

Japan has succeeded in taking the first major steps toward reconciliation with South Korea, finally becoming a free democracy. Before that, there were many attempts made to do that. They all failed. Of course, there were many, many problems on the Japanese side. There are a series of comments made by the Japanese politicians in their ignorance of history – the Japanese invasion and the others – so it's natural for the Koreans to be so upset.

But simultaneously, I think the undemocratic political regime in South Korea has

hampered those countries or societies from genuinely bringing about a general reconciliation, because from Park Chung-hee through Chun Doo-hwan, those military leaders always had been criticized for a lack of legitimacy. And the easiest way for them to overcome the legitimacy question was to present themselves as a fighter against the communists in the north, and also stoking that nationalistic sentiment, that anti-Japanese nationalist sentiment. Kim Dae-jung has not needed to have this pseudo, this mechanism and performance. So it was with the advent of Kim Dae-jung that Japan and South Korea could make the first move, take a major step toward reconciliation.

As far as China will remain to be under the current political regime, I think it still remains very difficult for both to genuinely engage in reconciliation. Although I should hasten to add that there are many things to be worked out between the two countries besides the history to make a deal between Japan and China, on various issues.

For instance, Japan's invitation, perhaps for China, and a facilitation of China into G8, and China's encouragement and support for Japan to play a more political role in the world as well as in Asia. Perhaps some arrangement of the military disarmament or control regime over northeast Asia could reduce tension and understanding, with certainly encouragement and understanding from the United States. So to make a long story short, that's my answer to you, but certainly China, I hope that China will evolve into more democratization as a first step. We have seen already some signs of that in more plural forces in the economy and society in China; it could evolve into a more politi-

cal form in the coming decade. Having said that, I also think that the democratization process could also pose some risks. It's much more possible, during that period, that the nationalistic sentiments could also be stoked, as the communist regime would feel much more compelled to defend its regime by winning that nationalist sentiment from the people.

Questioner: I wanted to ask you a security question about the Japan-U.S. alliance. Mike argued that in Japan, 25 years from now we will observe that Japan had succeeded in normalizing itself as a security actor without the reactions of the neighbors creating new arms races. Alan argued that the U.S.-Japan relationship was in pretty good shape – so good, really, that we don't even really worry about it, take it for granted sometimes. You argued that one of the great aggravating shifts in Japan's environment in the last decade is that the U.S. has been less enthusiastic about the alliance, and during the Clinton years looked more to China as a potential strategic partner.

Conversely, however, the real problem with Japan may be that the U.S. is too enthusiastic about the alliance, that the Armitage Report is seen as a kind of bellwether of the coming U.S. diplomacy toward Japan. Is it possible that the U.S. will be asking Japan to do too much and whether, given your analysis of the less-than-well-organized and clear domestic political scene, is the U.S. asking for trouble in pushing a political system that isn't well organized, doesn't have great leadership, isn't prepared to ask great politically existential questions about its role in the region or in world politics, there isn't a lot of vision? Is the Armitage orientation going to create pressure that

Japan will not be able to handle very well?

Funabashi: Well, I wish that in 25 years I would be a historian rather than a journalist. Yes, Nye-Armitage Report, if there is a danger, I think if they are too much enthusiastic with so many new agendas, including the expectation of Japan to revise the constitution. I'm afraid that given that political instability in Japan over the last one or two years, this is the most critical first stage for the new administration. We might see a revisit of the Bush-Kaifu global partnerships of the early 1990s, when it crashed after the Gulf crisis and war.

I do not think the Japanese political leadership would be strong enough to enact some legislation to enable those new proposals to be effective. Certainly, intelligence cooperation and some other proposals, perhaps, could be workable, but again, even here, they perhaps expect Japan to legislate some anti-espionage law to prevent that shared information from being leaked. I do not think that the new Japanese government would be in a good position to enact that.

But basically it has been very encouraging to see this new activism, a proactive thrust from Washington, and I think that particularly policy makers have been very much heartened to hear these arguments. But again, in the early first stage, first half of 1990s, there was a sort of a period of the alliance adrift. Yet, in the later part, I think with Perry and Nye in charge, it has been much more restored and, I think, engineered in a much better situation, particularly after that incident of the Okinawa rape issue.

U.S. Should Maintain Delicate Balance of China and Taiwan Policies

So perhaps I personally would not like to see too much rhetoric on the part of the new administration, particularly if they should be advised to be very much cautious of Taiwan and anti-China rhetoric, and also anti-North Korea rhetoric. It's very understandable for them to pay attention to the Taiwan situation across the strait, but I think that they should maintain a very delicate balance of the China policy and Taiwan policy, which the Clinton administration, particularly in the last stage, has developed.

Do not give any illusion to the Taiwanese that the United States can protect them if Taiwan would become independent, or something like that. At the same time, of course in China, to not use military means to intimidate Taiwan. So this is very delicate, but I think that is very important. If they would mishandle the Taiwan issue, then I think it could also have a devastating impact on the U.S.-Japan relationship, because I don't think Japan is obliged to defend Taiwan's military infrastructure. We do not have that kind of relationship, so that the positions and strategic locations, calculations, are different.

Likewise, if that new administration would start to upset this agreed framework, this multilateral engagement policy, which has also been enhanced by the Perry process of dialogue and deterrence, then I think it could also upset the U.S. relationship with Japan, as well as the U.S. relationship with South Korea, and it would hurt that alliance. So they have to be very, very careful. Fortunately, the Nye-Armitage Report has been very much scrupulous of these issues, but I have

found some more troubling noises and rhetoric in the other part of Republican politics.

[End]

About the Panelists

Main Speaker **Dr. Yoichi Funabashi** is an editorial member as well as a columnist for the *Asahi Shimbun*. He has worked for the newspaper in Beijing and Washington D.C. While in the U.S. he was the chief of the American General Bureau as well as diplomatic correspondent of the *Asahi Shimbun*. Previously, Dr. Funabashi was a Nieman Fellow at Harvard University, as well as an Ushiba Fellow at the Institute for International Economics in Washington D.C. He has received a number of awards, including the Japan Press Award, the Yoshino Sakuzo Prize, and the Asia Pacific Grand Prix Award by *Mainichi Shimbun*. Dr. Funabashi received a Ph.D. from Keio University and a B.A. from the University of Tokyo. His recent papers include “Japan’s Depression Diplomacy” (*Foreign Affairs*, November/December 1998), “International Perspectives on National Missile Defense: Tokyo’s Temperance” (*The Washington Quarterly*, Summer 2000), and “Japan’s Moment of Truth” (*Survival*, forthcoming).

Discussants **Dr. Mike M. Mochizuki** is holder of the Japan-U.S. Relations Chair at the Elliott School of International Affairs of the George Washington University. His areas of expertise are Japanese domestic politics and foreign policy, U.S.-Japan relations, and East Asian security. Professor Mochizuki’s previous associations include senior fellow at the Brookings Institution, co-director of the RAND Center for Asia-Pacific Policy, associate professor of international relations at the University of Southern California, and assistant professor of political science at Yale University. He earned his A.B. at Brown University and a Ph.D. from Harvard University. Professor Mochizuki has published *Japan Reorients: The Quest for Wealth and Security in East Asia* (2001), *Toward a True Alliance: Restructuring U.S.-Japan Security Relations in East Asia*, ed. (1997), and *Japan: Domestic Change and Foreign Policy* (1995). He is now working on a book project entitled *The New Strategic Triangle: the U.S.-Japan Alliance and the Rise of China*.

Mr. Alan D. Romberg is currently Senior Associate at the Henry L. Stimson Center. He spent 20 years as a Foreign Service Officer, focusing primarily on East Asian issues, including as Director of the Department of State's Office of Japanese Affairs. He was also Deputy Spokesman of the Department. He has since been C.V. Starr Senior Fellow for Asian Studies, Council on Foreign Relations; Director, Research and Studies Program, U.S. Institute of Peace; Principal Deputy Director, Policy Planning Staff, U.S. Department of State; and Senior Adviser and Director of the Washington Office of the U.S. Permanent Representative to the United Nations. Most Mr. Romberg has been Special Assistant to the Secretary of the Navy. He has been awarded a number of civil awards including the Distinguished Honor Award and Superior Honor Award by the Department of State. Mr. Romberg holds an M.A. from Harvard University and a B.A. from Princeton University.