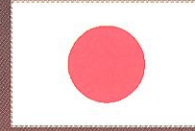


PASSIA Seminar



JAPAN,  
*Palestine,*  
*and the*  
*Middle East*

PASSIA

Palestinian Academic Society for the Study of International Affairs



The *Palestinian Academic Society for the Study of International Affairs (PASSIA)* was founded in Jerusalem in March 1987 by Dr. Mahdi Abdul Hadi and a group of leading Palestinian academics and intellectuals. PASSIA is not affiliated with any government, political party or organization, and it maintains a completely independent financial and legal independent status.

PASSIA deals with the various national, Arab and international aspects of the Palestinian Question through its academic *Research Studies Program*, dialogue and publication. In pursuing this task, PASSIA strives to ensure that research undertaken under its auspices be specialized, scientific and objective, and that its symposia and workshops be open, self-critical and conducted in a spirit of harmony and cooperation.

A major component of PASSIA's activities is its *Roundtable Meetings Program*, whereby dialogue is encouraged on three different but equally important tracks: Palestinian-Palestinian, Palestinian-Israeli, and Palestinian-international. By providing a forum for the free expression and analysis of a plurality of local and foreign perspectives, and with over 100 publications to its credit, many of which include the minutes of these meetings, PASSIA has proved most successful at promoting understanding of international relations as they affect the Palestinian struggle for justice and peace. PASSIA also holds regular *Interfaith Dialogue Meetings*, where religious leaders from the three great monotheistic faiths work together in an effort to foster scholarly understanding.

Considered to be of equal importance by those familiar with PASSIA's activities is its *Seminar Program*, which provides a much-needed venue for Palestinian graduates to benefit from the experience and knowledge of local and foreign experts of the highest caliber. PASSIA's educational and training seminars are divided into two categories: *International Affairs* including seminars on Diplomacy and Conflict Resolution, Strategic Studies and Security, the EU, Education on Democracy, The Foreign Policies of Arab States, Japan and the Middle East, and The United States and Canada: Political Systems, Policy-Making and the Middle East and *Civil Society Empowerment*, with seminars held to date including those on Policy-Making, Strategic Planning & Media & Communication Skills.

*Jerusalem* has been and will continue to be the core of the Palestine Question. It is also the focus of the majority of PASSIA's activities due, in part, to its centrality to the Palestinian-Israeli struggle and the now inevitable establishment of a Palestinian state. PASSIA hosts regular workshops that address different but inter-connected issues pertaining to Jerusalem, such as freedom of access, Israeli settlements, and the various religious, political, cultural, historical, and civil aspects of life in the city, in addition to municipal arrangements for Jerusalem as the capital of two independent states. In these meetings, as during all other events held at PASSIA, it is the desire to promote communication, cooperation and coordination between those with an interest in the fate of this region that overrides any other consideration, and which inevitably results in a dialogue that is as stimulating as it is productive.

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TRAINING AND EDUCATION IN INTERNATIONAL AFFAIRS

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PASSIA Seminar 1999

JAPAN, PALESTINE  
AND THE MIDDLE EAST

**PASSIA, Jerusalem**  
Palestinian Academic Society for the Study of International Affairs

PASSIA is a non-profit Palestinian institution in Jerusalem – Al-Quds. It has a financially and legally independent status and is not affiliated with any government, political party or organization.

PASSIA seeks to present the Palestine Question in its national, Arab and international contexts through academic research, dialogue and publication.

With its *Education and Training in International Affairs* program, PASSIA has pioneered educational seminars for Palestinian graduates. This seminar program provides a much needed focus inside Palestine for training Palestinian graduates and mid-career professionals in the field of international affairs with lectures and workshops held by the highest quality Palestinian and foreign specialists. Where possible, fellowships or study visits abroad are awarded to the most outstanding seminar participants.

The PASSIA Seminar 1999 on *Japan, Palestine and the Middle East* was kindly supported by the Japanese Endowment Fund established by the UNDP/ Program of Assistance to the Palestinian People (PAPP), Jerusalem.

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PASSIA Seminar Japan, Palestine and the Middle East,  
14-19 March 1999, PASSIA, Jerusalem: Participants and Lecturers



*PASSIA Seminar Japan, Palestine and the Middle East,*

*From left to right: Top Row: Valerie Grove, Researcher, Chatham House, London, Deniz Altayli, Program Director, PASSIA  
 Middle Row: Dr. Rosemary Hollis, Middle East Program, Chatham House, London, Mr. Yoshiki Hatanaka, Institute for International  
 Economic Studies, Tokyo, Mr. Katsuyoshi Hayashi, Japanes Representative Office, Gaza/Embassy of Japan, Tel Aviv  
 First Row: Dr. Mahdi Abdul Hadi, Head of PASSIA, HE Yoshiji Nogami, Ambassador of Japan to the OECD, Paris, Prof. Osamu Nariai,  
 Reitaku University and Nakamae International Economic Research*





PASSIA Seminar *Japan, Palestine and the Middle East*, 14-19 March 1999:  
Participants with HE Yoshiiji Nogami, Ambassador of Japan to the OECD, Paris



Audience at the PASSIA Reception, held at the Ambassador Hotel, Jerusalem, on the occasion of the Seminar on *Japan, Palestine and the Middle East* (19 March 1999)



Dr. Mahdi Abdul Hadi and Mr. Katsuyoshi Hayashi at the PASSIA Reception, held at the Ambassador Hotel, Jerusalem, on the occasion of the Seminar *Japan, Palestine and the Middle East*



PASSIA Seminar *Japan, Palestine and the Middle East*,  
Dr. Mahdi Abdul Hadi with Prof. Ben-Ami Shilloni (back row, center) and participants

## Introduction

PASSIA's seminar on "*Japan, Palestine and the Middle East*" was part of PASSIA's annual program on *Training and Education in International Affairs*. The purpose of this program is to help Palestinian professionals broaden their knowledge and contacts in the international arena, develop their expertise in specialist areas important to their community, and enhance their relations with others.

In focusing on *Japan, Palestine and the Middle East*, the 1999 seminar recognized that Japan has been an important source of economic aid and diplomatic support for the Palestinian community over recent years, and notably since the Oslo Accords between Israel and the Palestinians were signed in 1993. Japan was among the countries that sent observers to monitor the Palestinian elections of January 1996, and Japanese assistance has been crucial in regard to economic development within the Palestinian Autonomous Areas. Japanese contacts with the Palestinian community on the ground have increased accordingly and the Japanese Foreign Ministry has established a program for bringing Palestinian representatives to Japan for informational and familiarization tours. Among the wider Palestinian community, however, there is little knowledge about Japan, its history and culture, its contribution in the peace process and its role in the development of Palestine. The 1999 PASSIA seminar on *Japan, Palestine and the Middle East* was designed to meet this obvious need for increased understanding and contact.

The following report contains the proceedings of the PASSIA seminar, including presentations given by the lecturers and summaries of the subsequent discussions. In the appendices, one can find information about the lecture program, the lecturers, the Palestinian participants, and a list of relevant reading material.

PASSIA would like to take this opportunity to express its deep appreciation to the Japanese Endowment Fund established by the UNDP/Program of Assistance to the Palestinian People (PAPP), Jerusalem, whose kind support made this seminar program possible.

We also thank most warmly the guest lecturers from Japan and all the local and regional scholars whose lectures and expertise contributed greatly to the success of the seminar.

Last, but not least, the PASSIA team would like to thank the Palestinian participants for their comments and enthusiasm to learn about the socioeconomic aspects, political system, and foreign policy making of Japan especially with regard to the Middle East and Palestine.

Jerusalem,  
May 1999

*Dr. Mahdi Abdul Hadi*  
*Head of PASSIA*

## *Seminar Program*

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### *1. Preparation*

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PASSIA consulted with Palestinian and foreign scholars in order to plan and implement the seminar. Consultation on the planning and implementation of the seminar began in December 1998. At the beginning of January 1999, PASSIA advertised the seminar in the local press, *Al-Quds* and *Al-Ayyam*; notification was also given to national organizations such as universities, research centers, and institutions of the Palestinian Authority. No fees for undertaking the course were required from the participants.

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### *2. Participant Selection Procedure*

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PASSIA formed a committee specifically for the preparatory stage and oversight of the seminar. Its members were: Dr. Mahdi Abdul Hadi, Head of PASSIA, Dr. Rosemary Hollis, Head of the Middle East Program at the Royal Institute of International Affairs, London, and Mrs. Deniz Altayli, PASSIA's Program Director. PASSIA received applications from all over the Palestinian Territories and all applicants were invited for interviews. Dr. Hollis came from London specifically to conduct the interviews, which took place between 27 and 30 January 1999 in Jerusalem and Ramallah. Seventeen of the interviewees were selected to participate in the seminar, as well as four reserves.

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### *3. Reading Period*

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A list of reference materials providing background information on the topics to be covered in the seminar was prepared in consultation with relevant experts. Required reading materials were photocopied and distributed to the participants at the beginning of February, in order that they could familiarize themselves with the basic facts and issues in advance of the seminar. Additional recommended reading material was available for the participants at PASSIA's library.

The reading period included the preparation of a background paper; each participant was assigned a specific topic to research and to present during the seminar itself.

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### *4. Lecture Program*

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From 14-19 March 1999 a series of lectures, discussions, and other educational exercises were conducted by local scholars and visiting foreign experts. In addition, representatives from the Japanese diplomatic corps in Tel Aviv gave presentations and the participants themselves presented the background research papers that they had prepared as part of the one-month preparatory reading period.

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### *5. Social Activities*

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During the six-day seminar, beverages and luncheon for all participants and lecturers were provided by PASSIA. One evening, PASSIA hosted a reception at the Ambassador Hotel in Jerusalem for all involved in the seminar, as well as for representatives of Palestinian institutions, the diplomatic corps and friends of PASSIA.

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### *6. Writing Assignments*

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Participants were required to write a second essay after the close of the seminar. A list of suggested essay topics was made available during the seminar, from which participants were invited to choose the subjects on which they wished to write. Essays had to be completed within one month of the end of the seminar.

Participants who attended the entire seminar and completed the reading and writing assignments, assuming they have attended the entire seminar, received a certificate from PASSIA recognizing their successful completion of the seminar program.

## Opening Remarks and Orientation

**Dr. Mahdi Abdul Hadi<sup>1</sup>**

This seminar is part of PASSIA's program on *Training and Education in International Affairs*, which has included to date seminars on *The United States and Canada: Political Systems, Policy-Making and the Middle East*, *The European Union*, *The Foreign Policies of Arab States*, *Strategic Studies*, and *Diplomacy and Conflict Resolution*. The idea of these seminars is to equip young Palestinian graduates with knowledge, information, techniques, and venues of communication, etc., pertaining to international affairs. Unfortunately, we are way behind our Israeli neighbors when it comes to having specialists on international relations and the relationships of other governments and peoples with the Palestinians, which is why we need young Palestinian graduates like yourselves whose desire to learn is their greatest asset.

I would ask you to do two things: one, to feel free to be as open as you like with the speakers, and two, to take off your political shirts and think of yourselves not as a faction of this school or that school, but only as Palestinians with a genuine right to this land, including Jerusalem.

I will now give the floor to Dr. Rosemary Hollis from Chatham House, who all of you either met or spoke to during the interview period. As you know, PASSIA prefers to use an external interviewer so that we cannot be accused of any form of favoritism. One result of this is that you should by now be aware that you are here because you deserve to be here, and for no other reason.

**Dr. Rosemary Hollis<sup>2</sup>**

At Chatham House, we have various connections with Japan, including an international energy and environmental program. A number of Japanese fellows have also stayed at Chatham House,

and my colleagues and I go to Japan quite frequently in order to discuss issues of mutual interest that concern the Middle East. Traditionally, I would say the main Japanese interest has been in the Gulf region, the reason being the Japanese dependency on oil from the Gulf.

You are coming from a number of different directions in terms of your interest in Japan. Some of you are interested in management and business practices, others in the Japanese state-building process because you see Japan as a country that was destroyed, occupied and then rebuilt. Others, meanwhile, might be more interested in learning a little about the culture and the cultural differences that could affect the Palestinian-Japanese relationship.

With regard to the distribution of power in the world, international relations theory especially after World War II was dominated by a fixation with a certain type of power, namely military power. Even today, it would be most unwise especially in this part of the world to dismiss military power altogether. A couple of days ago, I asked an Israeli diplomat why Israel will not consider allowing trade to go directly from Jordan to Palestine and back again instead of obliging it to go through Israeli checkpoints. I could see what was going through his mind: You must be joking! There is no way we are going to allow them to bring in guns, explosives, chemical warfare agents, or whatever. The Israelis fear that if they do not control what comes in and what goes out the Palestinians will be able to increase this old-fashioned but nonetheless extremely important source of power. Even those Israelis who talk about a Palestinian state talk about a demilitarized state. It remains up to the Palestinians to decide if having military power is crucial to the kind of statehood they are seeking.

The Japanese, of course, were militarily extremely powerful during World War II. Now, as part of its effort - which has been ongoing since the end of World War II - to establish a new identity in the world, Japan no longer uses its forces abroad in any way, although it has defensive forces to protect Japanese home territory

<sup>1</sup> Dr. Mahdi Abdul Hadi is the founder and head of PASSIA.

<sup>2</sup> Dr. Rosemary Hollis is the head of the Middle East Program at the Royal Institute of International Affairs (RIIA - 'Chatham House'), London.

from attack and a number of bases that are part of the American strategic presence in the region. At the time of the 1991 Gulf War, there was an internal debate inside Japan concerning the kind of military contribution it could make to the coalition war effort; at the moment, the Japanese Constitution does not allow for that, and there would have to be some major changes in Japan in order to deploy military forces abroad. In effect, there has been a decision that the military power of Japan will remain purely defensive and as Japan has not come under attack since World War II, the question of what the Japanese have got or have not got and whether it is adequate has not arisen.

Another source of power is production, or rather industrial power or the power of production, and here I am thinking along the lines of the Marxist concept of the power of production. Basically, you cannot enter the industrialized world without the ability to manufacture the kinds of machinery that you need to enter the post-industrial world. If you are a purely agricultural society without machinery or with only imported machinery, you have not become an industrialized country and therefore you are dependent on imports. Dubai is a wonderful trading port, but does it produce anything? No. There is a lot of talk about the Gulf economies and the fact that the Gulf countries are obliged to import all their military equipment, which results in a major form of dependency because they do not have the power of production. This power of production does not only apply to military equipment. You get your washing machines, fridges, and televisions, etc. from Israel, but, clearly, if Palestine had its own power of production, some of this dependency would be reduced.

Note that optimism, hope, tenacity, determination and all the rest of it can help, but the international relations theorists and the international political economy theorists are mainly interested in the structure that determines who has and who has not, where the power is and where the power is not. Israel, for example, started as a community that built itself and then turned itself into a state and had industrial production. Now, today, Israel is far more than an industrial society, one reason being that it has hi-tech. Hi-tech gives power, especially if the countries that have it can develop it themselves, a facet we can label as

'knowledge'. This 'knowledge' is like the software that goes into the computers and the creation of that software. The power of production is going to determine whether you could make the hardware here or whether you have to import it, but you really need the knowledge to know what it is that you want from other countries.

I have to say that in terms of computer know-how, Palestine is doing quite well, the Internet and the use of the Internet having taken off quite spectacularly, leaving Palestine well ahead, I would say, of any of the other Arab countries. The Lebanese, for example, took off in that department, but they initially lacked the telephone lines and everything was done by cellular telephone, which proved enormously expensive. The Egyptians would be up there but for the fact that their telephone system is so old, although I believe that they are in the process of replacing it. Fortunately for you, you did not have to do what they had to do in Abu Dhabi, that is, to import Egyptians to run the machinery - you already have your own machines and do not need to rely on Israeli expertise to run them.

The Americans are now trying to get themselves up to speed in the area of knowledge warfare because the American society, which is the most powerful in the world and the most powerful in terms of production, is vulnerable when it comes to hackers, which means that it is important that they keep ahead. There is a theory that if you lead the race in the hi-tech computer field, there is no way that other people can catch up with you because knowledge is growing so fast and although people can acquire some of that knowledge, they cannot compete in the discovery area.

At this point, I should point out that there is a difference between innovation and knowledge. Innovation means that you have the most knowledge, but when this knowledge is imported, you do not have innovation. The potential vulnerability of the Gulf States is that all their technicians and managers are imported.

The last facet is the power of credit, which played a big role in the financial crashes that took place in Asia. Karl Marx built his whole theory concerning the power of production on the basis of his understanding of how you can mix labor with raw materials and produce goods,

which is what production is all about. What became much clearer later, however, is the power of credit. There are bodies like the Paris Club, the International Monetary Fund (IMF), and the World Bank (WB), and if they decide that you are not creditworthy, you simply cannot borrow. Nobody can save enough money to build a factory, to buy the plant, etc., so without the power of credit, businessmen are lost. Today, the international power structure dictates that certain international banks, particularly Western banks, have a very strong hold on the power of credit. The Japanese at the moment are under pressure from the United States not to lend money to Iran; they made one sizeable loan to Iran to fund an industrial project there and it makes perfectly good sense that having made that loan they want to protect their return on it by ensuring that the Iranian economy is going to be able to deliver, but for political reasons the United States intervened and put pressure on the Japanese Government not to renew or expand the Iranians' line of credit. As far as the United States is concerned, the Islamic Republic of Iran is not to be traded with, not to be lent anything, not to be dealt with at all. In fact, America has actually said that if one penny of IMF or WB money goes to Iran, the United States will withdraw all its funding for both organizations, which would literally kill them.

Since the crash 18 months ago, the Japanese banks and therefore the whole Japanese economy have found themselves in trouble for lending to insecure ventures based on insufficient security. One important aspect of the British and the Japanese relationship with the United States is that the British and the Japanese along with Canada – the three largest foreign investors in the United States – are the most exposed in terms of their investments there. Consequently, they are extremely dependent on the success of the American economy because if that nosedives, then so do their investments and so does a large chunk of their financial security.

The distribution of power across the international political economy has these main facets, but in my opinion, this model takes insufficient account of the more tangible aspects of human interactions and human relations, all of which affect business and international relations. The average political economist is a little uncomfort-

able with the whole idea of culture because he cannot put numbers on culture; the tendency has been in the discipline of international relations to work with things that you can add up and divide. Culture, of course, is not like that, so the social scientists have been doing their best to find ways to feed the consequences of culture into their knowledge base in order to understand how the world works. The same could be said of attitude. The British, for example, were still walking around behaving as if they had power and influence long after the fall of the British Empire, but if anybody had tested it, it would have crumbled. I still maintain, however, that it is always, or nearly always possible to convince people that you have power, even at the Israeli checkpoints.

The Palestinians, of course, are at a tremendous disadvantage, but you know what you are aiming for and you know where the power facets are. I am not saying that you have to do the same thing that you did during the *Intifada*, because I realize that the power structure will not work in the same way again, but the *Intifada* was a demonstration and we should not forget the power of the media to send a message concerning your attitude. The Israelis still talk about how they do not relish the prospect of controlling 2.5 million – soon to be three million – Palestinians who do not want to be controlled.



## *Pre-Modern History of Japan*

*Prof. Ben-Ami Shillony*<sup>1</sup>

With regard to the question of how Japan became such a large economic, technological power in an incredibly short space of time, one has to remember that it did not start from scratch. In fact, no country in the world starts from scratch as every country has its culture, its values, and its traditions, which it uses to facilitate change. The interesting thing about modern Japan and the key to its success is this ability it has to change without losing its identity. Whilst being very open to change and to foreign influence Japan succeeded in maintaining its culture and values.

Great changes took place in Japan, not once, but twice: once starting in the second half of the 19<sup>th</sup> Century and ending in 1945, when the greatest change took place, and once after World War II and until today. The great change that occurred in the 19<sup>th</sup> Century is very interesting. First of all, because Japan was the first non-European country to modernize at a time when the entire world was being dominated by the Western powers and the belief that only Westerners could really develop science or modern technology. The Japanese were the first to prove that non-Europeans and non-Christians were equally as capable, although there were even some Japanese who did not believe that they could do it.

Japan's achievements at that stage are all the more remarkable in light of the country's geographical distance from central Europe and its lack of contact with Western cultures. Moreover, the Japanese language had nothing in common with Western languages, which meant that it was incredibly difficult for the Japanese to understand them. Thirdly, the Japanese religion was totally different to those that existed in the West, whilst a fourth disadvantage was the Japanese's self-inflicted seclusion and the fact that for a very long time, they did not have

any important contacts with the West. The social structure of Japan, which was not conducive to modernization, could also be added to the list of disadvantages. Japan's was a feudal class society, in which the warriors called the Samurai were the rulers of the peasants and the middle class, and it was impossible to move up from the class into which one was born.

However, Japan also had cultural and traditional advantages, including its uninterrupted independence, which lasted from the 4<sup>th</sup> or 5<sup>th</sup> Century until the 19<sup>th</sup> Century, and its distance from anywhere else. Even the Chinese had never really tried to occupy Japan, being all too well aware of the fact that the Mongols had failed miserably in trying to invade Japan, whose warriors were legendary.

The Emperor in Japanese history never really had power because all the power was in the hands of the military – the Samurai and the Shogun. As a symbol, however, the Emperor was very important, being the point around which all the Japanese could unite. The Emperor was the descendent of a dynasty that had reigned over Japan since the very beginning. In this context it is worth mentioning that Japan is the only country in the world whose dynasty has never changed.

With regard to religion, the Japanese were far less committed than people in other Asian countries or the West, and although there was a local religion called Shinto, it was not taken very seriously. There are no prophets in Shinto, no moral code, and it is the kind of religion that is more ceremonial than anything else. However, Shinto was followed by Buddhism, a religion that came to Japan in the form of many different sects, hundreds of which exist until this day. This is perhaps one of the reasons why Buddhism was also not taken that seriously by many Japanese and why many follow Buddhism and Shinto at the same time. In no other country in the world could one belong to more than one religion, the reason being that religion is taken far more seriously everywhere else than it is in

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<sup>1</sup> Prof. Ben-Ami Shillony is Professor of Japanese History, Hebrew University, Jerusalem.



Japan. This, on the other hand, also explains why there were never any clashes based on religion in Japan. If a Japanese Buddhist is asked today which sect he belongs to, the answer will likely be that he is not sure because his mother belonged to one sect while his father belonged to another. In fact, the only time that it really becomes an issue is when someone dies and his family have to decide in which cemetery they should place his ashes, but even then, there is a good chance that they will simply go for the cheapest or closest.

Christian missionaries, who arrived in the 17<sup>th</sup> Century from Portugal, succeeded in converting a fair number of Japanese to Christianity. However, often it was not a true conversion, as those who 'converted' merely added Christianity to their other religion(s). Many others rejected Christianity as easily as they had accepted it once they discovered that it would not allow them to pray to Buddha or the eight million Shinto gods, or marry certain spouses, etc. Even today, the Christian population in Japan is less than one percent, not because Christianity was banned but because of the general lack of interest in religion. Many Japanese 'Christians' were only interested in the 'nice' parts of Christianity, such as Christmas and wedding ceremonies. In fact, many Japanese - even non-Christians - marry in a church simply because of the music. The missionaries built schools and hospitals in Japan, just like in the Middle East, and the best girls' schools in Japan today are Christian schools. The Empress herself is a graduate of one of these schools, but most of the girls who attend them are not Christians.

Another reason why the Japanese rejected Christianity is that they saw that the missionaries were being followed by the merchants and colonizers, and having seen what had happened in the Philippines, they became afraid of the missionaries, especially the Catholic ones. Eventually, Christianity was outlawed and all the foreigners expelled from Japan. I would say that Japan's seclusion from the 17<sup>th</sup> to the 19<sup>th</sup> Century was a major advantage when it confronted the West in the 19<sup>th</sup> Century, as it meant that the Japanese were not hindered by any religious scruples or objections. Another advantage was the high level of education in Japan.

The Japanese have a unique system of writing, which they took from China but not without adding some modifications. Each letter signifies a meaning and can be read in many different ways or used to indicate some sound for phonetic purposes. Consequently, when you look at the text it is very difficult to decide which symbol means something and which symbol indicates a sound, and in this regard, it is much harder to understand than Chinese, where there is actually a script.

Today, the first layer of the Japanese language is Japanese, the second layer a very rich layer of Chinese words, and the third layer words that were absorbed from Western culture. There is no language in the world that is 'pure' - in Arabic, for example, there are hundreds of words from Turkey and Persia - it being natural for languages to absorb foreign influences. However, what happened in Japan was that the Japanese added the Chinese words to the local ones, which means everything in Japan had two names, the Japanese name and the Chinese name, as the Japanese pronounce it. In modern Japanese you can say almost anything in three ways: in the Japanese way, in the Sino-Japanese way or in the English-Japanese way.

One of Japan's major advantages when it confronted the West in the 19<sup>th</sup> Century was the fact that although it was a secluded country that no foreigner could enter and no Japanese leave, its people were very open culturally. Whereas, for example, the Japanese were familiar with Chinese culture, the Chinese had no idea about Japanese culture, and one of the reasons why the Chinese found it so difficult to modernize was that they really felt that they had the best culture in the world and that there was nothing to learn from the Japanese 'barbarians'. The Japanese, meanwhile, were ready to absorb foreign cultures, and by the time they came into contact with the West, they had already been learning from the outside for more than 1,000 years.

In addition, because the Japanese had not been colonized by any Western power in the 19<sup>th</sup> Century, they had developed this easygoing way of adopting Chinese culture without hating the Chinese; they never really liked them, but they ad-

mired their culture and it was more or less the same when the Westerners came. In effect, the Japanese kind of replaced China with the West, believing that what they took from Western culture would make them stronger and more independent. One has to remember that the great fear in the 19<sup>th</sup> Century was the fear of colonization and exploitation, so the Japanese had basically two options: to fight the West, or to learn from it.

Western culture arrived in two stages in Japan. The beginning of the first stage was marked by the arrival in Tokyo Bay of United States warships, whose commanders gave an ultimatum: "Either you open your ports or we will shoot at you." The Japanese decided to comply, so it was a matter of force but without any bloodshed. Had it been the English, they would have fired at the Japanese, but the Americans were quite weak at that point and could not afford a war. The Japanese actually displayed great wisdom in not fighting back but instead saying to themselves "We will bow our heads and accept them, but we will also make an effort to learn from them in order to become as strong as they are." Had the Japanese refused to open their doors, there would have been a war, involving, no doubt, also the British and the French, and Japan would have been destroyed.

Also fortunately for Japan, in 1868 a group of young warriors overthrew the government, took the Emperor and made him the symbolic head of a 'government of the Emperor' in what came to be known as the 'Meiji Restoration'. One result of this was that people were motivated to work harder, because now they felt that they were not being exploited by members of the government, but were working for the Emperor, who was considered sacred. Some people even called the Emperor *ka'mie* which means god; he was not a god to worship or pray to, but someone who held a very sacred position that was important enough to attract the loyalty of the people. The 'restoration' men created a myth that the Emperor had once ruled in Japan, only for the military people to seize power and that now, they were restoring power to the Emperor. The real motive, however, was to combine two things: Westernization or modernization, and the strengthening of the Japanese nation so

that it could never be absorbed by the West, which involved making loyalty to the Emperor and nation the central element of the Japanese ideology.

From 1868 onward, the whole system of Japan changed. People were told that if they did not change, the country would be lost to the enemies surrounding it, whereas if they did, learning everything from those around them but whilst becoming strong militarily and economically and developing nationalism, they would have the great advantage. One great change was the abolition of the class system, the feudalism, and the introduction of a Western-style constitution that abolished all forms of special class privileges and made everyone equal before the law. The other major change was to improve the education system. High standards of education had existed in Japan for hundreds of years, but the problem was that children were learning wrong things, namely the Chinese culture, which was totally dysfunctional in the 19<sup>th</sup> Century. Being aware of this problem, the Japanese decided it was time to teach their children Western culture and languages but without allowing them to lose their Japanese identity and whilst teaching them to respect the Emperor and the country. Furthermore, it was decided to provide equal basic education for boys and girls and high school and university education for a few, 'a few' not being those who were born into the right families, but those who obtained good results in the examination system, which had not existed before the 'Meiji Restoration' administration.

The military was also reformed. Previously it had been characterized by a class occupation of the warriors; in other words, once born into the military class one stayed in the military for life. This system was abolished, and a new military system was built on the farmers as the main source of new recruits. When the warriors complained that the farmers would make poor soldiers, the new government responded by telling them that now that the class system had been abolished, the farmers would be motivated to become excellent soldiers and to be loyal to their country.

Another great reform was industrialization. It was very difficult in the 19<sup>th</sup> Century to establish a

modern industry. There were people who were willing to invest in Japan, but only with the goal of taking out the profits and controlling the Japanese economy, which is why the Japanese said no to foreign investments. In order to fund the industrialization the government taxed the farmers very heavily, which was rather unfair, and paid industrial workers very little. In contrast to India, for example, Japan did not go back to manufacturing by hand; on the contrary, it decided to build new factories and send delegations abroad to learn from the Westerners who were flooding the Japanese market with cheap textiles and clothes. By paying their employees very low wages, the new Japanese factories were able to compete against Western products.

The way the Japanese dealt with importing the Western language is interesting. For example, they translated telephone as 'electrical talking' and train as 'steam car', which meant that by seeing two characters, one for 'steam' and one for 'car', everyone could understand what a train was. Unlike other peoples that absorbed Western culture, the Japanese never changed their names to Western ones, which they considered another red line. Today, even Christians in Japan stick to their Japanese names.

The way the Japanese dress, on the other hand, was one of the things that did change. In the 19<sup>th</sup> Century, the Westerners coming to Japan made it clear that they considered anyone wearing traditional clothes barbaric. The Japanese, meanwhile, wanted to be respected – respect is a very important aspect in Japanese culture – and accordingly, they changed the way they dressed, hoping to earn respect from the Westerners coming to the country. One result of this is that the strictness of dress in Japan today is far greater than it is anywhere else in the world. The first delegation that went from Japan to the West in 1860, before the restoration, were dressed in kimono and they were horrified to find people in the West laughing and pointing at them, and by the time the next delegation set out, they were sporting Western clothes and Western hairstyles; in fact, the Samurai hairstyle was outlawed. Of course, the Emperor – who was very young at the time – was used to set an example and ordered to dress in a Western manner,

which for the Japanese was extremely difficult as it meant putting on shoes, which they simply were not used to.

Even the eating habits of the Japanese changed, the reason being that they believed that the Westerners who came to Japan were so tall because of what they ate and that the Japanese diet was to blame for their own short stature. The Japanese did not eat a lot of meat at that time, only fish and occasionally rabbit and they did not drink milk or eat dairy products; in short, their diet was much poorer than ours, consisting mainly of fish, vegetables and rice, so they decided to change it, which certainly was not easy. What did they do? They took the Emperor and got him to eat a steak in public, saying that he was doing it for the sake of the country and because he wanted everyone to eat meat and be strong. One interesting point is that the Chinese had always eaten meat yet, until the 'restoration', there were no Chinese restaurants, whereas after the 'restoration' they gradually became popular. Did this make any difference to the size of the Japanese? Well, it does appear that every new generation is taller than the last, but no one knows if it is because of this change in their diet, although I personally believe that food has something to do with it.

The Japanese also absorbed the Western calendar, which gradually replaced the lunar calendar, which the Japanese had used in the past. All their holidays had been based on the traditional calendar, but instead of doing what the Jews did - namely, to say we will have two calendars and our holidays will be according to the old calendar and our business dealings according to the new calendar – they decided to move the first day of the first month from the beginning of February – the Chinese New Year, when spring begins – to January 1<sup>st</sup>, which meant that all their holidays had to move a month and a half backwards. In any other society, religious people would never allow their holidays to be played around with, but in Japan, it was not a problem, simply because the people did not take religion seriously.

Something that was not so good for the Japanese was that they copied Western imperialism, building their army on the German model and their navy on the British one. They thought, rightly or

wrongly, that in the world of imperialism one was either strong or weak, and that if one was not strong, the others would eat him up, which is why they wanted an empire and decided to invade some of their neighbors. Consequently, the Japanese fought a war with China in 1894-95 and succeeded in taking Taiwan from the Chinese. Next, they fought a war with Czarist Russia, with whom they had a quarrel over Taiwan, which was a real challenge because Russia was a massive power. The Japanese fought the Russians for two reasons: to enlarge their country and to gain admiration and respect in the West. After this, they took Korea and later Manchuria, which they said they needed not only for their defense, but also for their economy, which needed raw materials; the only trouble was, the more they got, the more they wanted.

At the beginning, Western countries looked very favorably on Japan, which they regarded as some kind of 'bright pupil', but when Japan started expanding, especially after World War I, Great Britain and the United States – and also, of course China, which was scared of being conquered by Japan - started fearing Japan. It was at this stage that the West began to take an interest in China and the Chinese hatred of Japan began to be mirrored in the West. When World War II broke out, the Japanese signed an agreement with Hitler, having the intention of occupying Southeast Asia with all its resources. The only power that was blocking the way was the United States, so the Japanese bombed the Americans in 1941 and quickly seized all of Southeast Asia. From a military point of view it was one of the greatest victories in history, and the Japanese really believed that they had gotten away with it. However, because they were allied with Hitler, whom the West set out to beat, the West also set out to beat Japan.

The Japanese fought heroically, but the West fought them with a vengeance, developing all sorts of new weapons, including the atomic bomb, in the process. This was the only war in which nuclear weapons have been used, with the Americans dropping two bombs on Japanese cities. Whether or not this was justified is still being debated today, especially since the bombs were dropped at the end of the war when Japan was already beaten. The Japanese surrendered immediately, unlike

Germany, which had to be conquered before it would surrender. (In Japan, only the city of Okinawa was conquered.)

Japan surrendered in a very interesting way. Because the government feared the army would continue to fight, they got the Emperor, who had previously been used to urge the people to fight, to go on the radio - for the first time ever - and tell the people to lay down their weapons. The government realized that if the people did not hear the Emperor actually tell them that Japan had surrendered, they would never believe it.

The price of the war was enormous; all of Japan had been destroyed, the Americans having decided that the best way to make the Japanese surrender was by conducting air raids, destroying not only Japan's military and its industries but also its population centers. It was no surprise, therefore, that at the end of the war, the Japanese felt that they were back to square number one.

*Participant:* If Japan had had the atomic bomb in 1945 would it have used it?

*Prof. Shillony:* I think the question is, if America had developed the bomb earlier, would it have used it against Germany? We don't know. World War II was a very cruel war. We all know about the cruel things that the Germans did but the Japanese also committed atrocities in China and Southeast Asia. The Soviet Union, which was fighting on the allied side, also committed many atrocities when it conquered Germany and Manchuria. I imagine that due to the cruelty of the war, yes, the Japanese would have used the bomb. However, when they bombed Pearl Harbor they attacked only the naval base and not the civilian city of Honolulu, which they could have done quite easily had they wanted to.

Interestingly, the Japanese showed a high degree of respect toward their British and American prisoners, treating them far less harshly than the Chinese detainees, and this is but one example of the way in which the Japanese never let go of this respect for Westerners. During the war, for example, the Japanese Government decided to abolish English and there was a lot of talk about teaching

Japanese children German instead, but their parents insisted that they wanted them to continue learning English. Moreover, when the B-22 bombers came, the Japanese would say, "Mr. B-22 is coming," which again, implies a kind of respect for Westerners. Even the kamikaze pilots wrote letters in which they said that they hate the Americans but love their music... "so although tomorrow I am going to die, I want to listen to American music."

During the war, the Japanese officially respected Asians and hated Americans whereas actually, they despised the Asians and respected the Americans, being frightened to identify with Asians, who were a part of the underdeveloped world. As for the Asians, they were impressed by Japan's modernity; the Koreans, for example, hated the Japanese, but they valued the new methods of production and education that they established.

*Participant:* Was the Emperor regarded in the same manner as the British Royal family?

*Prof. Shillony:* In a way yes, although one has to remember that the Emperor with all his titles and fancy clothing had far less power than the British monarchs. Even today the Queen is the Head of the Army, the Head of State and has one of the world's largest fortunes. In Japan, even before 1945, the Emperor was the Head of State and the Chief of the Army but he was never involved in any of the decision-making. On the other hand, there are still people in Japan who find it hard to believe that he will just walk around in the streets, remembering, as they do, the 'old days' when the Emperor was so 'divine' that to portray him on money or postage stamps was unthinkable.

The Emperor had always been respected in Japanese history; even though the government had changed and Japan was divided into warring states for a very short time, all of them recognized one Emperor. Moreover, when the Meiji leaders thought about how they should reform their country, they saw that in the West religion played a very important role in motivating the people, and they thought to themselves, "Okay, we do not have a strong religion, so what do we have that is important?" It was then they realized that by using the symbol of the Emperor, they could rally up

support for the new regime. Consequently, media and school announcements and government proclamations were all done in the name of the Emperor and all public documents were signed 'By order of the Emperor'. Even in battle the Japanese shouted 'Banzi, banzi,' which means ten thousand years, or rather that 'the Emperor should live ten thousand years, even though I am going to die'.

Even though he was only a symbol, which meant that no politicians were able to become strong enough to pose a problem, all the credit for Japan's successes went to the Emperor. If Japan is compared to any other country in the modern world, great dramatic change was always led by dramatic figures, but who was the Lenin, Hitler, Churchill, Abdul Nasser, or Chairman Mao of Japan? There was no charismatic figure at all, because to have one, would have negated the role of the Emperor. The great problem with personality leaderships is that when the personality dies, everyone dies but in a system of collective leadership, if one leaves and one arrives, it makes little difference.

One of the disadvantages is, for instance, the question of who should be held responsible for mistakes. With regard to the war, the Americans did not know whom they should put on trial, because everyone knew that although the Emperor had signed all the paperwork, the war had not been his actual doing. Collective decision-making, therefore, has it up and its down side.

*Participant:* Going back to names, isn't it true that the Japanese who emigrate today do actually change their names?

*Prof. Shillony:* Only their first names, and only because the parents think that it will be easier for their children to fit in at school. Unlike Jews and Moslems, the Japanese living abroad never had any problem with being unable to celebrate their different religious holidays, the reason being that they are basically of little significance and what the Japanese emigrant wanted more than anything else was to fit into the host society.

There were 150,000 Japanese-Americans living in America when the war broke out in 1941. The Americans were worried that the Japanese would

obey the orders of the homeland so they put them all into concentration camps, even though they had not done anything. In addition, they confiscated all their property and failed to return it after the war, because they saw the Japanese as potential enemies. Of the people in the camps, not one of them identified with Japan, only with the United States, and they even asked to be allowed to serve in the army, to which the Americans replied, "If you want to fight, go fight the Germans in Europe," which many of them did. In fact, the Japanese unit won the largest number of medals and suffered the highest casualties. Many of the Japanese served as interpreters, and again proved very effective, so there was never any reason to believe that they were more loyal to Japan than they were to the United States.



## Modern History of Japan

*Prof. Ben-Ami Shillony<sup>1</sup>*

One of the most interesting aspects of the post-war period is the American-Japanese relationship. During the war, the Americans and the Japanese were bitter enemies, and the Americans, certainly, had never hated an enemy as much as they hated the Japanese, whom they considered less than human. In light of the fact that the Americans dropped the atomic bomb and destroyed all the cities of Japan, one would assume that this great hatred between the Japanese and Americans would have lasted for many generations, but the fact is, it evaporated incredibly quickly. Part of it can be explained with the fact that the Japanese are so good at changing and adapting, which means that they can easily change from a bitter enemy into a good friend. In other words, if you are going to war, you go to war, but if you are going to make peace, then you make peace. At the end of the war, the Japanese knew, even without being urged on by the Emperor, that surrendering and making peace with the Americans was the right thing to do in order to avoid an American conquest of every Japanese town and city.

The Japanese were also fortunate that their enemy was the United States, rather than, for example, the Soviet Union. Even though the Americans dropped the atomic bomb, they had no desire to annex Japan or to punish the Japanese, and the American Government was extremely lenient toward Japan after the war, even though American public opinion was strongly anti-Japanese and demanded punishment. The main reason was that the Cold War broke out immediately after World War II. The Soviets had succeeded in China and the Americans needed to show the Asian people that capitalism, not communism was the right system. Consequently, it was in their interest to rebuild Japan rather than destroy and punish it. Since Japan had surrendered unconditionally, the Americans could do whatever they wanted but there was an understanding that they would not destroy Japan or the Royal Family or even

depose the Emperor, in whose name the Japanese had fought the war. The idea of 'forgiving and forgetting' *vis-à-vis* Hitler was unthinkable, but the United States needed the Emperor because through him they could do anything, whereas without him, there would have been an uprising against the Americans.

It is interesting to note that when all the Japanese political leaders who were responsible for the war were put on trial and executed, the vast majority of Japanese believed that they should have committed suicide when the war ended following the tradition of the Samurai. As far as they were concerned, it was shameful for them to be executed rather than kill themselves.

Because the Americans treated the Japanese well, the Japanese reciprocated by reacting in a positive way to the Americans. When the Americans had announced that they were going to occupy Japan, the Japanese, having never before been occupied, had no idea what would happen and were convinced that their own cruelty would result in the Americans taking revenge. Consequently, many Japanese families sent their womenfolk into hiding as they believed that they would all be raped and murdered once the American soldiers arrived, whereas what actually happened was that the Americans gave them food and treated them with nothing but respect. Having realized that the Americans were not nearly as bad as they had imagined, the Japanese fondness of the West and their desire to learn from the West reemerged.

The Americans were also mistaken about the true nature of the Japanese, so mistaken that General MacArthur thought that he would need millions of soldiers in every town and in every village, only to discover that the Japanese were perfectly willing to cooperate with the American occupation. Had the Japanese responded with force, there is no doubt that the Americans would have crushed them completely, being so much stronger, but as it was, they did not even put the Emperor on trial or call him as a witness, let alone execute him, which left the

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Japanese people with a very good impression about the Americans.

The first meeting between Emperor Hirohito (Emperor of Japan from 1926 until 1989) and MacArthur has become a famous story. MacArthur had refused to meet the Emperor in the palace, as this would have implied that the Emperor was more important than he was. What happened next was almost unbelievable: the Emperor took a couple of people and drove to the building in which the American general's office was situated where, upon hearing that MacArthur would not even condescend to meet him downstairs, he walked up the stairs to MacArthur's office. When the Emperor told MacArthur "I take responsibility for the war. You can do whatever you want," it really threw the general, who thought that he had come to plead for his life. MacArthur believed that the Japanese would now look down on the Emperor but he was wrong; the Japanese actually said that they admired the Emperor because for the sake of Japan, he had gone and lost prestige, so, in the end, the Emperor was saved, not only as an institution but also as a person.

What happened next was that the Americans decided that they should change Japan from being a militaristic society so that it would not attack them again. Thus they said to the Emperor, "How about declaring that you are not God anymore?" "No problem," said the Emperor, and on 1 January 1946 he told his people, "My people, there has always been a myth that I am a God. I am a human being just like you." For the Americans it was a great achievement, but to be perfectly honest, few Japanese really cared because it was a title of respect; after all, there were eight million gods and one more or one less was not going to make any difference.

Next, MacArthur decided that the Japanese should become a democratic society, believing with good reason that generally, democratic countries do not fight each other. However, the Japanese did not want to change their constitution, so MacArthur said that if they did not change it, he would write them a new one – which he, or rather one of his staff, did in approximately one week. The Japanese then made it a sort of amendment to the previous constitution, and once it had been signed by the Emperor and approved by the Japanese Parliament, after the making of a few minor changes, it was

established as the new constitution of Japan in 1946. It came into force in 1947 and is still the constitution of Japan today.

Although the new constitution was written by the Americans it is such an idealistic constitution that the Japanese fell in love with it straight away. Even today, they are very committed to it, the reason being that the previous constitution had said "I the Emperor of Japan bestow on you this constitution," whereas this one says that "the sovereignty of the constitution lays in the sovereignty of the people". It goes on to say that the Emperor is a symbol of the State, just like the flag, and has no real power whatsoever. So it is a very democratic constitution, all power to the parliament and total freedom of speech and of organization, etc.

The most important clause, however, is clause number nine, which says that Japan will never again go to war and will never have a military or develop a nuclear potential. Costa Rica is the only other country in the world whose constitution says that it should have no army. A few years after the constitution was signed, the Americans discovered that they had made a great mistake because they realized that it would be a good idea to have Japan, like Germany, become an ally of the United States. The problem was that when they came to the Japanese and said, "Now we are allies, there is the Cold War and the Soviet Union, so how about building a military?" the Japanese turned around and said, "No, our constitution does not allow us." "But it was us who wrote the constitution!" said the Americans, to which the Japanese replied, "No it was the Japanese people who wrote it." Even today the Japanese people believe that they wrote their own constitution.

When the Korean War broke out, the Americans were forced to move their army from Japan to Korea, and it was then that they put real pressure on Japan to build a military, partly because of their fear of communism, which by that time had become legal in Japan. The Japanese did, eventually, agree to build a military, but because the constitution was against the building of a military as such and could not be changed, the Japanese built something called the Self-Defense Forces (SDF). Members of the SDF are not called soldiers but 'employees' of the SDF, and even though some



Japanese said that it was unconstitutional, the courts did not abolish it, everyone having realized that Japan needed some kind of military. The United Nations Charter recognizes that every nation has the right to self-defense, but even so, Japan's military has remained small and never exceeded more than 250,000 members out of a total population of 120 million people. Moreover, all of its equipment is defensive, the sole purpose of the SDF being to block an invasion of Japan. Nevertheless, the military budget of Japan is the second largest in the world. One of the reasons is that because the army is not constitutional, meaning that there is no national service, the Government of Japan is obliged to pay members of the SDF extremely high salaries. In addition, Japan's military equipment, although it is defensive, is amongst the best and therefore most expensive in the world. Certainly the SDF stands in stark contrast to the army in Korea, where one million people out of a total population of 20 million are in the army, which has aircraft and tanks and even, perhaps, nuclear weapons.

Japanese 'soldiers' are like any other employees and can resign whenever they want. Worthy of note is the fact that they take off their uniforms the second they go home because they are ashamed of being associated in any way with anything military. In fact, what has happened is that the former most militaristic society in the world has actually become the most pacifistic society in the world, so pacifistic that in Japan, any war is considered as unjust. Opinion polls have revealed that were there to be an invasion of Japan by China, the vast majority of Japanese would choose to leave the country or be ruled by the Chinese rather than fight. Moreover, when the United Nations (UN) asked the Japanese to provide some military personnel for missions around the world, the Japanese public were against it, being afraid that this would lead to something else, such as Japan going on to conquer China, which is of course crazy but shows the extent to which the Japanese are against the military.

The Japanese forgot about the war very quickly and became very pro-American, both with regard to learning from the Americans and with regard to American popular culture, which resulted in many English words entering the Japanese language. Even in the cities of Nagasaki and Hiroshima,

American soldiers going there were well received, even more warmly than in other places and even right after the war. This is rather strange, as the Americans did not behave very well in these cities; at one point they built a clinic in Hiroshima and many Japanese went there in search of treatment, only to discover that it was there conducting research on the effects of radiation. However, instead of hating the Americans, the Japanese treated the war like a game of sports; you played it, you lost, okay, no bad feelings. Every year in Nagasaki and Hiroshima there is a commemoration, but although there is a lot of talk about bombs and nuclear disarmament, no mention is made of who dropped the bombs on Nagasaki and Hiroshima, the Japanese having long ago accepted the fact that they made and were punished for making a huge mistake. Today, if you go up to a Japanese and ask, "What do you associate with Hiroshima?" nine times out of ten the answer will be either "The car industry" or "Mazda," because Mazda cars are built in Hiroshima, and in some cases "Its baseball team"; only way down the list of associations comes the dropping of the atomic bomb.

Unlike the Japanese, the Americans have not displayed a willingness to forget. For example, 50 years after Pearl Harbor the Americans held a big ceremony, but when the Japanese asked to be invited, they were horrified. As far as the Japanese were concerned, this was a new era, one in which they were working alongside the Americans, and everyone should let bygones be bygones. In Japanese religion, there is none of this strong divide between what is good and what is wrong, between black and white, and the Japanese felt that during the war cruelty was part of the way one fights, whereas after the war you have to be friendly because you have made peace. One could even say that the Japanese regard what happened during the war as a natural disaster, such as the earthquake that destroyed Tokyo in 1923, when the number of people killed was approximately the same as the number killed in the war. The way the Japanese look at things, when there is an earthquake you do not blame anyone but reorganize, rebuild and then forget all about it. The lesson that Japan and the United States learnt from World War II was not the same. The lesson that the Americans learnt is that one should never appease an aggressor and

that they had been wrong to appease Hitler before the war instead of confronting aggression, which was the whole rationale behind the Cold War. In contrast, the Japanese learnt that it does not matter if you are right or wrong, war is bad, and if the Americans want to fight the Soviet Union, that is their choice, but Japan will not help them.

Having made a decision to refrain from ever becoming militarily involved in any future conflicts, the Japanese had to decide on what it was they should concentrate on as a nation. What they decided was that theirs should be an economic role and that all the military energy should be re-channeled into economic energy. Consequently, Japanese fighters became businessmen and in building their factories, the Japanese made use of this idea of doing something for the Emperor, but this time, the idea was not to fight, but to make money.

There was, however, a problem, namely democracy. The government in Japan was not nationalistic, but a moderate, conservative right wing. The Liberal Democratic Party (LDP) that has ruled Japan since the end of the war is a conservative party and the socialists and communists were always the opposition. There were some extremes, a small group of right wingers and some left wingers and some violence, terror and assassinations by extreme right wingers, and there were also some terrorist attacks from small, terrorist student groups. However, all these groups were suppressed and when it came to the polls, the majority of Japanese always voted for the Conservatives. The old triangle had been composed of bureaucrats, military men and businessmen, whereas the new one was composed of bureaucrats, conservative politicians and businessmen, making it a much stronger triangle, simply because those involved had been to school together and knew each other well, so they helped each other a lot.

Even though the Americans wanted to see the economic recovery of Japan, unlike in Europe, where there was the Marshall Plan to rebuild the economy, in Japan there was nothing. Some say that there was something racist in this, but the Americans did do some positive things for Japan, such as opening the American markets to Japanese goods, selling American technology to the Japanese, and accepting Japanese limitations on American goods to help

Japanese industries to grow. The Japanese Government, which was strong and pro-business, also helped business in all sorts of ways, including by establishing a special ministry called the Ministry of Trade and Industry (MTI), and the businessmen themselves displayed great skills and intelligence.

As well as the physical and organizational destruction, there had also been some ideological destruction. For instance, singing the national anthem or raising the flag was now frowned upon because it was associated with nationalism, and even today, although the government ordered schools to raise the flag, the teachers are against it. In other words, the Japanese showed a great move from ultra-nationalism to anti-nationalism. Today, the strongest movement against nationalism is the Teachers' Union.

In a way, the destruction that took place in Japan had some positive sides, because the fact that all the factories were destroyed meant that brand-new efficient ones had to be built in their place, making them the newest in the world. Also good for the Japanese was that the colonies were taken away from them, because from an economic point of view these colonies did not pay and it was better to get rid of them. But from where did Japan now get all its raw material? The answer to that is that the United States wanted to help Japan so it told all the other countries to sell the Japanese what they asked for, and with the American market now open, the Japanese economy was able to prosper.

With regard to the former Japanese soldiers, they were now busy with becoming good workers and were more than willing to sacrifice themselves for work because they knew that in the long run, their factories would become richer and their salaries would grow. This, however, required some long-range thinking, which was not easy because there were many strikes after the war. The communists and socialists had become very active and were accusing people of cooperating with the imperialist United States because even though Japan did not send soldiers to the Korean War, the war was helping the Japanese economy because all the civilian orders for cars etc. went to Japan. The Americans were actually very upset when the Japanese said that they would participate in the Cold War on an economic basis but would not be a part of the

military struggle, although they realized that the Japanese Constitution would not allow them to do anything else. It was not just the legal restriction; the Japanese public opinion was very much against the war. Today, even if the Emperor of Japan were to go on the radio and tell the Japanese to go to war against China, the people of Japan would not follow him. He is still admired, but because of the new constitution of Japan and the new education system the vast majority of Japanese care very little about the Emperor and if he is mentioned at all in the newspapers, it is only in a couple of lines on page three or four.

There was, of course, a great danger inherent in this right-left confrontation, the fact that workers were striking and students, who were becoming increasingly radical, were accusing the government of trying to remilitarize Japan to appease the Americans. With regard to the latter, they were also demonstrating against the Security Pact because in 1952, America agreed to allow the Japanese to become independent again on condition that they sign a Security Pact with the United States, according to which the Americans would keep their bases in Japan and use them in the Cold War against the Soviet Union. The peak of the student demonstrations was in 1960 when thousands of students marched and surrounded the Japanese Parliament, but even though the Prime Minister resigned, the new government that was formed continued with the security treaty.

Because the right wing, the conservatives and the employers all realized that too much confrontation in the workplace could pose a serious danger to stability and productivity, the employers decided that it would be wise to cooperate with the workforce and gain its confidence. The result of this was that although there continued to be national trade unions, negotiations took place in the factory, the general idea being that because employers and workers knew each other well, they were better qualified than an outsider to decide how much each could give up. The new cooperation was also based on security for the employee, which meant that once someone was accepted into a big company, it would perhaps lower salaries in the event of a crisis but never fire him. In other words, there was this kind of human connection, the idea that workers were

part of an extended family rather than nothing but machines. From that point on, even the president of a company would wear the same uniform as the regular employees, and everyone would eat in the same cafeteria, use the same toilets etc., which sounds kind of petty but it was very symbolic. Even the salaries of the managers were kept at a reasonable level so that the workers would not feel that they were being exploited. Moreover, promotions were based on seniority, the sick were taken care of, and kindergartens were organized for the workers' children, so everyone was happy. In addition, profits were shared with the workers in the form of twice yearly bonuses, which might be small or large, depending on how business was going.

With regard to the idea of giving bonuses, it was extremely clever as workers, until today, tend to put them in banks rather than spend them, which is due in part to a long Japanese tradition of saving money and, particularly in the past, to concern regarding the future. It would have been easy for the Japanese to encourage foreign investors to come and invest in Japan, but they did not want to do that because they were afraid of foreign control, so lacking foreign investment, they took the money they needed from the people, but this time, not by taxing the farmers like during the 'restoration', but by using the savings of the workforce. When people put these lump sums of money in the bank once or twice a year, the banks were able to use this money to invest in the Japanese economy, and most of the owners of the shares in the new industries were banks rather than private shareholders.

One of the reasons why the banks invested was that they had more patience than private investors, who tend to want quick returns on their money. The banks could make long-term investments and if, in the first few years, a factory lost money, it was not a disaster because the investors had enough experience to know that eventually their investments would pay off. It is clear, therefore, that banks were very central to the economic development of Japan.



## The Political System of Contemporary Japan

*Prof. Ikuo Kume*<sup>1</sup>

In the following, I will focus on the political leadership in Japan. Two days ago I visited Gaza and the West Bank and I am now convinced that it will be very important at a later stage in the Palestinian state-building process to integrate the whole region of the Palestinian nation and also, at the same time, to have some form of decentralized government to respond to various needs in the different regions. Consequently, I would like to talk a little about the development of the central and local government relations in Japan.

Japanese politicians have constantly been labeled 'weak'. In the international arena, Japanese politicians, especially the Prime Minister and top political leaders, are practically invisible and few people understand what they are doing. Domestically, it is also often said that the Japanese political leaders are very weak and should show more responsibility, which is one of the reasons why Japan is currently going through a process of political reform. One reason why Japanese Prime Ministers have been criticized is related – or so some people believe – to the fact that harmony, teamwork, consensus, etc. characterize Japanese culture. The same thing applies to companies and politics, with the leaders of the government usually leaving substantial decision-making power in the hands of lower-ranking officials, whose job it is to initiate the ideas and then negotiate through the organizational process. It is therefore very understandable that the top leader faces some difficulty in bringing about the top-down decision.

In the post-war history of Japan, there have, nonetheless, been a few good Prime Ministers and top politicians, which means that the cultural aspect is not the only one. On the other hand, there were people such as Prime Minister Murayama Tomiichi, who, at the time of the earthquake in Kobe, was very slow in responding to the emergency, for which he was criticized by the mass media. There again, immediately after

World War II, Yoshida Shigeru was elected as Prime Minister and he was a very strong leader.

In order to make sense of this kind of variation, it is useful to apply some conceptual frameworks. Here I would like to introduce a leadership model called the 'PM Model': 'P' means performance – performance in leadership means that the leader says that he will do something and then goes ahead and does it - and 'M' means maintenance – i.e., to maintain the support of the people, which is very hard for a leader to do. Using this kind of conceptual dimension in regard to Japan, one can see that there are four kinds of leadership:

- **PM** - someone who is good at performance and also at maintenance;
- **Pm** - someone whose performance is good but who is not good at maintenance;
- **pM** - someone whose performance is poor but whose maintenance is good;
- **pm** - someone whose performance and maintenance are both poor.

Anyone who looks at Japanese history in detail will realize that Japan has had leaders from all four categories. In Japan, where the dimension of maintenance is very important, it is usually difficult for Japanese leaders to focus on the performance aspect.

The typical view of economists is that the Japanese market is a multi-conditional kind of thing that serves as the driving force behind Japanese economic development. As a political scientist I would like to focus on the other side of the story and on three dimensions of the basic elements, each of which has the market side, the legal side and the political side.

### *1) Legal market dimension*

As is well known, the butcher is very important because everyone needs meat. If there is one butcher in the kingdom, he should be a good person and care about the community, although of course he will also pursue his material interests. Now, if the king suddenly says to someone else,

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“Okay, you can be a butcher too,” this will ‘demonopolize’ the situation, which is what happened in Japan some 200 years ago when there were so many monopolized occupations, as well as in many other countries. If the butcher wants to maximize his profits, things will be very different as he will buy at a low price and sell at the highest price possible. If the king realizes this is happening, one option would be to tell the first butcher that he has been replaced by a new butcher, and the second option to let anyone become a butcher, which means that the first butcher, if he wants to maximize his profits, should sell at a lower price in order to compete with the others. In this kind of free market competition, resources can be used very effectively and one can buy at cheaper prices, although, of course, there are various things that cannot be sold in a market. To provide public goods, one cannot count on the market freedom so the government is needed, which is responsible for collecting taxes, etc. The way the government intervenes in the market is dependent on the political issue and this is the first dimension.

## 2) *Comparative advantage*

The second dimension is the trade issue or free trade and the target of the concept of the comparative advantage. If two countries, ‘A’ and ‘B’ produce two different products - automobiles and wheat - and if ‘A’ is better at producing autos than ‘B’ and ‘B’ is better at producing wheat than ‘A’, there is no reason why both countries could not produce both autos and wheat. On the other hand, ‘A’ could specialize in autos and ‘B’ in producing wheat, which would result in both countries becoming richer than they would be if they both produced autos and wheat. Japan is producing rice, but the price of the rice is six times higher than in the international market. Nevertheless, the government wants to produce rice. Why? Because it argues that in Asia, where there is an economic crisis, the government wants to have a national project and to produce its own crop; in other words, Japan has a case of market versus politics. It is easy to say that competitive advantage is needed rather than comparative advantage, but in some sectors, this is not possible. In 1957, the Japanese Ministry of Transportation was reluctant to have a Japanese car industry but the next year it became impossible to import cars from the

United States so the government decided that the priority was to export; it was a government issue and the Japanese car production increased.

Imagine that two people in a country, ‘A’ and ‘B’, have different incomes. ‘A’ earns US\$100 million, ‘B’ earns US\$1,000, and the government is providing them with 100 liters of water each, for which they both have to pay a tax. There are three different methods suggested for payment.

	A US\$100 million	B US\$1,000
I	50%	5%
II	10%	10%
III	US\$800	US\$800

1. The first option is that because ‘A’ is rich, the payment would be related to 50 percent of his income while ‘B’ is poor, so the tax would be related to five percent of his income.
2. The second option is that the payment represents ten percent of the individual incomes of ‘A’ and ‘B’.
3. A fixed sum of US\$800 should be paid by each of them.

There are various judgements as to which is the fairest system. In Japan after World War II, all these three issues were squeezed together.

There are three main political parties in Japan:

- *Liberal*: The Liberal Democratic Party (LDP) - pro-United States
- *Democratic*: The Social Democratic Party (SDP) of Japan - more autonomy
- *Socialist*: The Democratic Socialist Party (DSP) - neutrality

The LDP held a near-monopoly of government from its formation in 1955 until 1993, and was returned to power in 1994. Opposition parties in Japan have been in flux since 1994, with membership shifting between several new bodies.

The beliefs of the different parties are mentioned in the table hereunder.

Liberal	Democratic	Socialist
Free market	Economic plan Intervention	Same as Democrats
Free Trade Comparative Advantage	Industrial policy relations with China	Same as Democrats
Less social welfare	More social welfare	Same as Democrats
Pro-United States	Autonomy	Neutrality
Small military	Strong military	No army

On the economic issue, both the Socialists and the Democrats believe that the United States does not open its markets to Japan and wants to sell Japanese products in China.

After Japan became independent, the Liberal Party was in rule but during the second half of 1954, Premier Yoshida's policy of close collaboration with the United States was strongly criticized by dissidents within the Liberal Party, who went on to form the Japan Democratic Party. Subsequently, by virtue of Socialist Party support, the Democratic Party leader Hatoyama Ichiro was elected premier. The Democratic Party and the Liberal Party merged in November of that year, giving the government an absolute majority and inaugurating the power monopoly of the LDP.

Until the early 1970s, there was a close correlation between candidate support and LDP support. Ever since 1966, the LDP support rate has been decreasing and then recovering, which means that the political leaders of the LDP, including the various Japanese Prime Ministers, have spent a lot of time finding new supporters and bringing more people into their party. Although the LDP continued to hold the reins of government throughout the 1970s, the party's cabinets frequently changed, as factional infighting substituted for the alternation of governing parties. In 1975, the LDP was torn by factional strife and failed to pass most of its major bills and in the elections, the LDP lost its majority in the Lower House for the very first time. The LDP, which suffered a further setback in the 1983 elections, won its greatest landslide in 1986. Japan in the early 1980s faced urban

overcrowding, environmental pollution, and unproductive agriculture, but it had the highest rate of economic growth and the lowest inflation rate among leading industrial nations. However, economic growth began to slow down in the mid-1980s, in part, because the strength of the yen against the US dollar had a dampening effect on exports.

In 1989, the Japanese Government announced the introduction of a new consumer tax – there had never been a consumer tax before – which resulted in decreased support for the LDP, whose support rate has since continued to decline. This decline is mainly due to demographic reasons and the fact that many people were moving from rural areas to urban ones. A very rational strategy of the LDP involves catching new groups, mainly by using various economic measures.

The LDP won decisively in the parliamentary elections of February 1990, although the Tokyo stock market had begun a decline that would last until mid-1992 and see the Nikkei average lose almost two thirds of its value. Against a background of continuing tension with the United States over Japan's trade surplus, confidence in the government continued to decline as the Japanese public became increasingly frustrated with the stagnant Japanese economy and corruption. In the 1993 elections, the LDP lost its majority, ending its 38-year dominance of the Japanese Government. A fragile seven-party coalition was formed, and the LDP became the main opposition party.

In 1996, the leader of the LDP, Hashimoto Ryutaro, replaced the Prime Minister in the coalition government, marking the return of LDP dominance, and in September 1996 the Prime Minister called for an early general election. The poll returned the LDP as the largest single party but one that did not have an overall majority. In 1997, the LDP recovered its majority in the Lower House for the first time since 1993 but still proved unable to remedy the country's continuing economic downturn.

With regard to the various reasons behind the formation of the LDP, one of the obvious reasons is related to the Cold War. The Socialist Party was divided in the early 1950s into the left wing and the right wing and in 1954, merged

into a large unified socialist party. Many people believed that the Socialists would increase their popularity in the future, which accounted, in part, for the formation and popularity of the LDP.

As to the question of how the Prime Minister managed the maintenance, the most important aspect is the inter-party management, because if the LDP is unified and the leaders agree with the existing Prime Minister, then everything will go smoothly. In the early 1960s, the Prime Minister used to choose his close allies within the LDP as ministers, but gradually the ministerial position distribution became very institutionalized and based on the size of factions. In addition, a new system was established whereby after five years, a member of the LDP could be elected as a vice-minister of some ministry and then after six terms become a minister.

Constitutionally speaking, every individual parliamentarian can send a question to any minister and force him to answer it. In the parliamentary deliberation, members of the Parliament can also raise questions in front of some of the bureaucrats, but they do not use this system so effectively. In the parliamentary cabinet system, most of the members of the Lower House support the Prime Minister and it is very difficult to influence the government and make it establish a policy-making process, which is why there is a tendency to try to negotiate or reach compromises with the government.

With regard to the decline of the LDP, this was related to demographic changes in Japan and to the fact that the party was criticized for not being active in the areas of social welfare and environment. However, in the early 1970s, the LDP changed its policy and introduced very extensive and intensive social welfare policies and very strict environmental regulation policy in a bid to maintain power. Today, the LDP is gradually recovering.

Traditionally, the middle class used to be very stable in their political support for the LDP, but in the 1970s, there appeared the so-called 'new middle mass'. In Japan, in any vote almost 80-90 percent of the people are in the middle mass, and what happened was that many of the 'middle mass' people whose wellbeing was not steadily based on real estate found themselves receiving money and protection from the government.

Naturally, they do not want to lose their benefits, but they are very critical in a sense and somewhat independent, so whenever there is a governmental scandal, these people tend to go against the LDP, unlike the traditionalists.



## *The Decision-Making Process in Japan*

*Prof. Ikuo Kume*<sup>1</sup>

In talking about the institutional aspects of Japanese politics, I would like to begin by saying that given the political development, Japanese political leaders, especially the Prime Minister, need to be very careful when it comes to maintaining and expanding their support using the various available policies.

In post-war Japan, there have been various mechanisms to redistribute income, for example, the 'explicit distribution' of income mechanism. This involved a progressive tax system and social welfare, which was based on the idea of transferring income from one area – taxes, particularly those paid by the rich – to another – social welfare payments such as unemployment benefit, mainly to the poor. In this regard, Japan was behind many other countries for a long time as until at least the early 1970s it did not have any intensive social programs.

In the late 1950s, there was something called 'implicit distribution' when the government introduced very protective agricultural laws and bought up all the rice from the farmers at a high price, the very political objective of this being to compensate them. In the past, farmers had been richer than other people, but once the economic development and industrial growth started, the income gap between rural areas and the urban ones became bigger and whereas workers and other people became richer, the farmers were left behind. Even before the war, rural life was deteriorating and in many rural families, the father actually sold his daughter as a Geisha girl or a prostitute, especially in the north of Japan, and this kind of social problem was one of the reasons behind the Japanese invasion of China. However, in the post-war period, the government tried to alleviate the poor conditions of the farmers by using this protective agricultural policy and since 1955, the domestic price of rice has increased, as has the income of farmers. Although this was not referred to as a social welfare policy, functionally speaking this kind of

protective agricultural policy played a role that was very similar to that of social welfare. Worthy of mention is the fact that immediately after the war, the socialists were very powerful in rural areas but once this protective agricultural policy was implemented, the situation changed.

There are similar kinds of 'implicit redistribution'. For example, in Japan it is usual for any large company wishing to open supermarkets in downtown districts to first go to the area and negotiate with the small shop-owners in that area with a view to reaching some kind of an agreement. Another example involves the textile industry; in the 1970s, the Ministry of International Trade developed some very interesting policy for the textile industry, which was then applied to other industries in order to prevent unemployment. There are many other examples.

With regard to the institutional arrangement that supports this implicit redistribution, of obvious importance are the elections. In Japan there are two houses, the Upper and the Lower, but for the sake of convenience I will focus on the Lower House only, which has 511 members. In the Lower House, the Prime Minister is elected according to the direct elections program that was introduced three years ago. The one unique aspect of the Japanese election system is the so-called SNTV System (or Single Non-Transferable Voice system). Typically, for the Lower House election, one election district elects five parliamentarians and for each district, there are between five to eight candidates of whom the voters vote for only one.

If we have three candidates 'A', 'B' and 'C' and candidate 'A' belongs to the Nakasonic faction, candidate 'B' to the Oguchi faction and candidate 'C' to the Tanaka faction, the election campaign is then based on the Habatsu system. Inter-party competition is deeply rooted and serves as the very foundation of the Habatsu system. What are the implications of this system? If 'A' wants to get elected, he does not have to have a majority as 20 percent is enough to win. Thus, 'A' will say "I am a friend of sponsors and in the Diet I will protect you by producing more protective policy motions" and candidate 'B' will say: "I

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am a friend of xyz and I will protect you," etc., so this election system tends to result in politics being based on 'implicit distribution'.

The second important decision-maker is parliament itself. The Socialists like to see themselves as standing against the government and they usually take a very strong stand during the parliamentary sessions. On average, the LDP possessed maybe 60 percent of the seats in the 1960s and even in the 1970s, the LDP maintained the majority. The government usually sends a bill to the parliament and if this bill is very important, the LDP Minister in charge will explain what this bill is all about before it goes back to the committee to be discussed and then returned to the parliament.

The practice of the opposition parties is to send as many memoranda as possible to the appropriate committee, which will usually gather to deliberate three days a week, on the subject of a bill that they oppose. It takes a long time for a bill to be passed, especially as the opposition parties use various methods to delay its passing. If the LDP government wants to expand its support, then it has to make concessions. In one year, there are 200 days of sessions with three meetings being held each day due to the lack of space.

Although parliamentary members can initiate laws, 70 percent of the bills originate from the government.

Due to the style of the Japanese elections system and this parliamentary system, it is very easy for the opposition parties and the different factions of the LDP to realize their demands. In the 1970s and 1980s in Japan, if the economic situation was bad, the LDP was able to win massive support because people believed that only the LDP could solve the problem.

The issue of the central and local government relationship is related to the issue of internal politics. In Tokyo, there are seven candidates for the elections, among whom there is a very interesting commonality. The Government of Japan was experiencing very serious economic difficulties, as was local government and even the Tokyo Metropolitan Government, for whom the financing of its budget is a very important issue in the elections. Almost all candidates say that the central government should give financial aid to the Tokyo Metropolitan Government. Japa-

nese local government has only a 30 percent share of the total tax in the country, the other 70 percent going to the central government.

	Local Government	Central Government
Tax	30%	70%
Expenditure	70%	30%

The statistics pertaining to the share of the total tax are similar to those found in Northern European countries, but a unique aspect of the Japanese system is the expenditure. The local government spends almost 70 percent of the total budget while the central government spends only 30 percent, which is why the central government transfers some money to the local government in the form of 'local transfer tax'; the poorer the local government, the more it receives from the central government. The Tokyo Metropolitan Government is the richest in Japan and it has never received any local transfer tax, but it has learned a few lessons and so all the candidates in the upcoming elections are demanding that the central government give local transfer tax to their local governments too, including the Tokyo Metropolitan Government.

These days, the World Bank (WB), the International Monetary Fund (IMF) and many international organizations strongly argue that many countries, especially developing countries, should have decentralized governing systems or local government. Some developing countries or ex-socialist countries introduced very decentralized governing systems, but to date, they have not been very successful. When the WB asked some Japanese political scientists and economists to do some research on Japanese central and local governments, we found ourselves looking at two types of models: the autonomous model and the integrationist model.

#### 1) *The autonomous model*

The autonomous model that the WB and IMF have been proposing means that the local government can have 20 percent of the tax and 20 percent of the expenditure while the central government spends the remaining 80 percent.

Local Government 20% tax / 20% expenditure
Central Government 80% tax / 80% expenditure

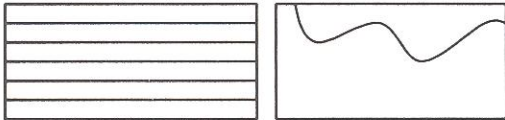
This means that there are very few interactions between central and local government.

## 2) *The integrationist model*

The integrationist model is like Japan's local government with 20 percent tax and 80 percent expenditure for the local government and 80 percent tax and 20 percent expenditure for the central government.

Local Government 20% tax / 80% expenditure  
Central Government 80% tax / 20% expenditure

In America the two models are called the 'layer cake model' and the 'marble cake model'.



At the time of the 'Meiji Restoration' Japan tried to establish a very centralized state, this kind of centralized government being very common, the aim being to modernize the system. It is very useful to have a centralized government and to implement and devise the same policy for all the people, but at the same time it is somewhat difficult to implement various policies from the top, which is why there need to be different arrangements for implementing various policies.

Japan decided to have three government systems: central government, prefecture and city/village/town, with the latter two kinds becoming the local government after World War II. The basic idea was that the central government would use the prefecture governor as the agent of the national government and to monitor or direct these local governments, but various policy implementation is very rarely in the hands of these local governments.

After World War II, the American occupational forces came and tried to democratize the Japanese system, the most important reform being that the prefecture governor and prefecture consul both had to be directly elected. So, after World War II, the prefecture and the city/village/town became the local government. It is understandable that the central government was not so happy with this reform because it lost some im-

portant power over the local governments. Accordingly, some adjustments were made after the occupational reform resulting in three mechanisms to assure the central government control over the local government. The first one is that the central government sends some delegates to serve as high-ranking officials in the local governments - the so-called 'personnel dispatch' - and the second is the 'agency delegated function'. The central government, wanting to maintain some control over the popularly elected prefectures, has tried to establish various control mechanisms but this is an extremely difficult process.

The bottom line in the integrationist model is that the local government needs some money from the central government in the form of subsidies and the central government tries to use the subsidies to control the local government.

On social issues, the national government wanted to ensure that all the people in Japan have the same standard of living, and instead of delegating this task to the local government, it decided to use another agency. With this very integrationist model, different governments as well as prefecture governments could demand more help from the national government, and in many instances, mayors and governors would use the same argument, saying, "We are implementing this policy for you, so you ought to give us more money." It is only natural that poorer villages and cities in particular are eager to do this and also that their respective politicians are very cooperative with the governors in demanding more money. Therefore, this integrationist model functions in a very similar way to distributive politics.

Now, in the World Bank - and also in Japan - this model is no longer so popular and there are now some reformists and government agencies in Japan that are trying to reform the whole system. This agency-delegated function is being abolished this year in order to put more power in the hands of the local government.

It is very difficult to decide to what extent the central government should transfer money from the rich regions to the poor ones. It takes ages to get to work in the Tokyo metropolitan area, which often involves taking a train and standing in one position for a very long time, which is extremely tiring. In the northern or western parts

of Japan there are much fewer people so traveling is far less stressful. In addition, there are many museums, etc. run by local governments, unlike in Tokyo, which is a source of great annoyance to people living in Tokyo. So much money goes to the rural areas, whereas in urban Tokyo, particularly in the western part, the situation is very bad. This is partly because the system according to which we calculate the basic needs of the local governments is very complicated (number of people, income levels, etc.). Within this system, Tokyo has many disadvantages that make reforms necessary. It is argued, for example, that more local autonomy and competition should be introduced, whereby the local governments would compete with each other in providing a high level of services, and a decent tax system, etc. The idea is that with more power in the hands of the local government, the people who are disappointed with their services in one region will move to a region where the services are better.

The local governments should be more prudent in using tax money and improving social welfare services or whatever. Obviously, every local government wants to have richer rather than poorer people under its jurisdiction and therefore more tax income and less social welfare.

If the central government is too powerful, which is the case in many developing countries, then it is moving towards a more autonomous model. The Japanese experience showed that it is important - but also difficult - to maintain some kind of integrationist mechanism within the system. The basic idea in Japan is to keep power in the hand of the local government but to maintain some critical jurisdiction in the hands of the central government. The government is now trying to introduce a system whereby if the local government is not satisfied with the central government intervention, it can appeal to the court, which will demand that the central government explain the reasons and the terms that it uses to control the local government.



## *Economic Development in Japan in the 1990s*

*Prof. Osamu Nariai*<sup>1</sup>

### *A Brief Review of Developments in the 1990s*

#### *Growth with constant government support*

Japan's growth performance in the 1990s has been disappointing. After peaking in February 1991, following a 51-month expansion, the Japanese economy went through an unusually long recession that lasted 32 months and then a very modest expansion, which ended in March 1997. The 1991-1993 downturn was the second longest in the post-war period, the average length of recessions being about 15 months. Moreover, the subsequent 31-month upturn was clearly lacking in vigor. The output gap swung from an estimated negative 3.1 percent in 1991, (i.e., over-utilization of capacity), to a positive 0.7 percent in 1993 and then continued to widen to 2.4 percent in 1995. Until the latest downturn, however, growth outcomes had been only slightly worse than those of the OECD as a whole had been and similar to those in Europe. Such international comparisons show that it was only in housing investment and, to a lesser extent, in exports that Japan's pattern of spending growth was notably sub-par. The government made vigorous efforts to reactivate the economy, implementing seven fiscal stimulus packages in the four years from 1992 to 1995. Moreover, the Bank of Japan cut the official discount rate to 0.5 percent in 1995 and has since kept it at this historically low level.

The government also undertook a major tax reform in 1994 in order to make the tax system more suitable for a rapidly aging society. Its major thrust was to shift the tax base from income toward consumption: personal income taxes were reduced by changes in the tax schedule and an increase in standard personal and employment income deductions, and the consumption tax rate was raised from three to five percent in 1997. Although the reform was intended to be revenue-neutral, it had some positive effects on the economy from 1994 to 1997 because the income tax reduction preceded the rise in the consumption tax rate.

As a result of these various moves, the general government structural deficit increased by about six percentage points of potential GDP from 1991 to 1996. Mundell Fleming effects (in which net exports are squeezed by an induced currency appreciation due to a high interest rate) may well have restrained the foreign balance contribution. In other words, it appears that private sector agents were unresponsive to the stimulus.

#### *Lack of dynamism in business fixed investment*

One of the reasons for the sluggish business investment was the build up of a physical capital stock that was excessive in relation to requirements and for the 1990s. This depressed the need for business fixed investment, and spending fell in the period 1992-1994. The amount of excess capacity reported by Tankan respondents peaked in 1994 and fell in 1995, when the capital stock adjustment was considered to be almost at an end, judging by average historical outcomes. In fact, the manufacturing industry increased investment in 1995 and 1996, and this investment recovery provided a basis for judging that the economy was back on the path of self-sustaining expansion. However, the investment boom, largely confined to a few machinery sectors, which responded to an increase in demand for information technology, was short-lived. At the same time, investment spending by firms in the construction and real estate sectors continued to stagnate, reflecting their deteriorated balance sheets, especially among small and medium-sized enterprises (SMEs). These SMEs went for increased land-related investment in the late 1980s, financed by loans from banks that were in search of new clients as major companies become progressively less dependent on their loans. The delayed adjustment of dynamism in their investment continued in the 1990s. On the other hand, it is increased relocation of production to factories overseas that accounted for an upsurge of investment by small manufacturing firms.

#### *Sluggish household spending*

The sluggishness of the household consumption growth in the 1990s reflected not only the weak state of the economy in general, but also adverse wealth effects and factors such as the effects of the changes in labor markets and the aging society.

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Perhaps the most relevant aspect of the changes in labor markets in this regard is the significant rise in unemployment - which increased from 2.1 percent in 1990 to 3.4 percent in 1997 - which raised concerns about job security and reduced the propensity to consume. Breaking the unemployment rate down into age groups reveals a remarkable increase in joblessness among young and elderly workers, the former caused mainly by an increase in voluntary unemployment and the latter by corporate restructuring. A study by the Economic Planning Agency (1997) shows that the propensity to consume is affected by the share of private sector employees who have experienced either an employer-ordered job change, paid suspension of employment or encouragement to take voluntary retirement and acceptance thereof, in addition to wealth and other variables. Concerns about post-retirement incomes might also have discouraged spending, as people were beginning to understand the future financial difficulties of the pension system. According to a recent survey, more and more people, not only the elderly but younger people as well, now worry about their old-age incomes. Therefore, households might cut spending to provide for their retirement regardless of their current age.

Similar factors also restrained residential investment. Eroded confidence seems to have had a significant impact, since the capital cost of housing investment fell as a result of lower land prices, construction costs and interest rates. In addition, the stock adjustment mechanism depressed rental housing construction in particular, which continued to decline except for during a two-year period, when it was affected by temporary factors. Because rental housing is a kind of 'inferior good' (relative to owner-occupied housing) in Japan, most rental units are occupied by younger people. Expectations of a shrinking population of young people might have made the adjustment more severe. Owner-occupied housing construction might also have been affected by demographic factors: the population of house-buying age (taken here to be 34 to 43 years) fell by 19.1 percent between 1990 and 1996. The low number of new houses being built caused the secondhand housing market to be much thinner, with an increasing concentration of all transactions involving cheaper structures.

#### *The magnitude of capital losses*

The speculative build-up in asset prices that occurred toward the end of the 1980s was arguably

the greatest such 'bubble' in any OECD member country in the post-war era. As such, it is by no means surprising that reversing it has caused so much distress and dislocation to the economy. Overall, the nation has had to confront cumulative capital losses of around one quadrillion yen (about US\$7 trillion), which represents some two full years' worth of Japanese GDP and over 14 percent of the value of the nation's total assets at the end of 1989. Around two thirds of the total loss was seen in the value of real estate, which had fallen by around 27 percent from the peak by March 1997. Most of the remainder occurred in equities markets, which plunged by just over half, while other assets, when combined, have risen in value. Little of the decline in asset values has been matched by corresponding falls in liabilities, which have dropped by only a little more than 100 trillion yen. Thus, net worth has been reduced in a largely corresponding way. Most of the correction was experienced earlier in the decade, thereby helping to bring about Japan's ninth post-war recession (by its own reckoning) in 1991-1993. What is remarkable is that the economic recovery in 1994-1997 was not sufficient to stabilize asset prices and bring to a close the persistent asset price deflation.

#### *Problems in the financial system*

Financial institutions have traditionally held a combination of securities issued by their borrowing corporate customers. Substantial capital gains were earned on these holdings in the 1970s and 1980s, but the 'hidden reserves' that were established have since been largely wiped out through the following:

- The steady erosion of market values;
- Their rising book value resulting from the banks' willingness to realize some of the capital gains in order to meet capital adequacy requirements; and
- The unwinding of these often interlocking shareholdings and the diminishing role of the main bank in Japanese corporate governance more generally.

They have also suffered to the extent that the value of the collateral - mostly land - which they hold against their loan sales expectations formed in the bubble era has developed to generate a bad-loans problem. The uncertain size of this problem has been plaguing analysts and policy-makers alike for much of the decade.

The financial positions of banks in the 1990s have been adversely influenced by a number of factors other than the direct effects of domestic asset price deflation. First, the increasing level of competition brought about by the slow but steady process of financial liberalization when combined with market shrinkage and minimal exit has brought about extremely narrow lending margins. Second, even if the unanticipated decline in underlying inflation has provided a capital gain to all net creditors, including banks, it has harmed banks' customers, their real net worth in particular. This, along with their capital losses on their asset holdings, has thereby worsened the problems of adverse selection and moral hazard, which are innate in banking markets. Further, these problems emanating from asymmetric information have also been amplified by the heightened uncertainty resulting from the asset price deflation, the 1991-1993 and 1997-1998 recessions and the financial failures, which have multiplied in the recent past. In Japan's case, the informational problems have not been overcome, as the regulatory authorities have, up until quite recently, generally maintained an attitude of regulatory forbearance (often labeled the 'convoy' system), whereby insolvent institutions have been kept afloat by a lack of disclosure or have been merged forcibly with a healthier rival. In any case, banks had no incentive to develop any expertise in the areas of risk analysis and management with the official strategy of complacency.

### *Reinvigorating Business Sector Dynamism*

Not many years ago, Japanese corporations were frequently regarded as model performers. There are reasons to think that they lost some of their dynamism of earlier decades. The manufacturing sector has come to the end of the catch-up process and many of the non-manufacturing industries, which have long operated in a regulated environment, have become inefficient. More generally, weak business performance has led some to question the appropriateness of the Japanese corporate system in an environment that requires rapid decision-making and calculated risk-taking to achieve high rates of return.

#### *Waning business dynamism: indicators and possible reasons*

There are indicators that the Japanese business sector has lost some of its dynamism of earlier decades. One of the most worrying trends has been a declining rate of new company formation combined with a rising rate of company closure. A rise in the rate of company closure as such

should not be a matter for concern to the extent that closures represent an elimination of the inefficient. The birth rate had been over six percent until the end of the 1970s but fell to about four percent by the mid 1990s whereas the death rate rose from the three to four percent range to about five percent over the same period, thus surpassing the birth rate. These trends are more marked for the manufacturing sector where the birth rate came down to about three percent, compared with the situation in the service sector where the birth rate still remains at around five percent. This gap in rates between the two sectors is commonly observed among the advanced industrial countries and reflects a trend shift toward services production as well as the relatively lower capital requirements in setting up a service operation. While international comparison is difficult both the birth and the death rates are lower in Japan than in many other OECD countries, notably the United States where the rates are two to three times higher even after adjusting for acquisitions. This suggests that the pace of metabolic change in business activity, a measure of the Schumpeterian process of creative destruction, is lower in Japan and has been declining.

Profitability in the business sector has continued to decline. The ratio of current profits to total assets in non-financial corporations declined from an average of 4.3 percent during the period from 1986 to 1995. A similar trend has been observed for the manufacturing sector, which saw this measure of profitability fall from 5.2 percent to 4.1 percent in the same decade. As this is the sector that has been exposed to strong competitive pressure, often on a global scale, the declining profitability trend can be interpreted as an indication of weakening business dynamism.

### *Possible Reasons Behind the Loss of Dynamism*

#### *The end of the catching up process*

Cross-country comparison indicates that overall the manufacturing sector in Japan has broadly attained the levels of productivity found in other high-income countries. This would generally mean that Japanese manufacturing companies cannot be expected to improve productivity any more by merely 'catching up' with those in the more advanced countries. Within the manufacturing sector, however, the picture varies greatly across sub-sectors. Whereas Japan has been a leader in basic metals and transport equipment, it has lagged substantially in several other areas, including food,

textiles, wood products and pulp and paper industries. The gap varies much more in Japan than in the United States or other Anglo-Saxon countries. This suggests a strong presence of country-specific characteristics in consumer preferences and entry barriers and protective measures in the Japanese market for those sectors with low relative productivity. These sectors can enhance productivity given the catch-up potential. However, for most other industries incumbent companies will have to undertake greater innovation efforts, even if many remain competitive owing to their superior technical know-how pertaining to the production process, which has been the traditional strength of Japanese manufacturing companies.

#### *Some lacunae in the corporate system*

While the legal features of Japan's corporate system are similar to those in other OECD countries, direct incentives for managers to enhance shareholder value have been lower, and this is likely to have weakened business dynamism. Most of the members of the board of directors are promoted from inside, having made a career in the company, and sanctions through the market for corporate control are extremely limited.

Cross-shareholding has resulted in only about 20 to 40 percent of shares of *keiretsu* companies corporate groups being actively traded on the stock exchange. This arrangement is said to have insulated the firms from hostile takeovers and management from pressure to achieve short-term profit, thereby promoting more strategic decision-making from a long-term perspective. This has also meant, however, that the board of directors cannot function as an impartial monitor of the performance of senior corporate executives who themselves are board members and appoint other directors. In addition, with directorship widely regarded as a reward for dedication to a company, the board has grown in size, with some companies having as many as 40 directors, and ceased to be an effective body for making strategic decisions.

The key institutional shareholder that exerts primary control over managers is the so-called main bank, which also is a principal lender. Strong bonds between banks and companies have been formed through the dependence on bank loans rather than equity markets throughout most of the post-war period. Long-term relations between them have meant that traditionally, loans granted to companies by banks have been secured by real estate collateral, and that there has been relatively little project finance, which requires assessment

of business risks. The main bank is commonly believed to monitor managerial performance, thereby reducing the monitoring costs to other shareholders, and, if necessary, to discipline managers - as a substitute for the open market for corporate control. Another often-cited advantage of main banks is lower costs of dealing with financial distress in comparison with going through a protracted formal bankruptcy procedure. It has often been claimed that these features of the corporate governance arrangements contribute to reducing the cost of capital to companies.

These corporate governance arrangements are, however, likely to have contributed to managerial aversion to large risks: directors promoted from within tend to favor continuity over change, and the reliance on banks as the chief corporate monitor is likely to have resulted in managerial orientation towards low-risk options. The absence of a significant change in the composition of business investment towards innovation and new product development seems to be consistent with such a conjecture. This managerial risk aversion is a plausible explanation for reduced business dynamism.

#### *The ROE revolution*

Back in the 'good old days' when capital was plentiful and cheap, pursuing a higher market share was the central focus of Japanese business, and weighing down both sides of the balance sheet with loans and depreciable assets made sense from a tax liability perspective. Return on equity (ROE) was an inconsequential issue because banks were willing to lend regardless of firms' profitability.

The weak balance sheets of banks, caused by their bad debt problems, combined with the fact that under the old system the banks never really developed the capacity to evaluate risk, have made banks unwilling to lend. These domestic changes, along with increased economic and financial globalization, have thrown Japanese firms into a harsh new world. Cut off from their traditional source of financing, companies have to go to the commercial paper and bond markets or look to foreign banks. Credit ratings have suddenly become the determining factor of Japanese corporations' access to capital financing costs.

The global standard for determining credit ratings is, of course, ROE. Since Japanese corporations, for the reasons explained above, have notoriously low ROEs, they are being forced to pay rates significantly higher than the rates to which they

are accustomed. This is why the raising of ROE has recently taken on unprecedented significance in the minds of Japanese corporate managers.

Moreover, along with the financial pressure to increase ROE, the start of Japan's big bang deregulation process has encouraged the establishment of better corporate governance and the strengthening of shareholders' rights. As shareholders become more influential and their voice in management decision-making strengthens, the pursuit of higher ROE is rapidly becoming the top priority of corporate management. However, opportunities for earnings growth will continue to be meager until structural reform is complete. Corporate Japan therefore has no alternative but to raise profitability through the rapid correction of excess investment and employment.

The fact that the average employment levels in Japan are excessive is highlighted by the rising trend in the labor expense ratio, or labor share, defined as personnel expenses in proportion to added value. Labor share for all Japanese industries has steadily increased to an average of 68.8 percent for the period fiscal year 1994 to fiscal year 1997, compared with an average of 64.9 percent for fiscal year 1990 to fiscal year 1993. The recent change in corporate focus towards raising profitability means that even if the labor expense ratio falls back to the level of the early 1990s, further employment cuts will clearly be necessary.

Analysis across economies of investment ratios and growth rates gives further evidence of Japan's need to invest more wisely. Whereas Japan's ratio of gross fixed capital formation to GDP in 1997 was 28.3 percent, substantially higher than the G7 average of 17 percent, real growth of Japanese GDP during the 1990s has averaged only 0.9 percent. This unique combination of significantly lower returns from a substantially higher level of investment illustrates how Japan has used capital with spectacular inefficiency.

Further analysis of investment ratios and profitability by firm size and by sector within the Japanese economy highlights where investment excesses have been worst. According to the Finance Ministry's statistics on incorporated enterprises, for all firms between fiscal year 1997, before-tax ROE (current profit as a ratio of shareholders' equity) averaged 11.5 percent. For large firms (firms with paid-in capital of more than one billion yen), although capital investment averaged 31.1 percent of added value, before-tax ROE averaged only 8.8 percent. Smaller firms (firms

with paid-in capital of ten million yen), in contrast, posted an average ROE of 16.8 percent. By sector, large non-manufacturers had the highest investment ratio of 39.3 percent, but still recorded an average ROE of only 8.8 percent.

A closer look at the non-manufacturing sector reveals that large firms in the communications industry have been the least efficient investors of all. Their investment ratio between fiscal year 1994 and fiscal year 1997 was 55 percent while their average ROE was only 6.4 percent. It is true that telecommunications is a promising industry with high growth potential in the information age, but there is still no justification for the huge amounts of money these firms seem to have invested without pausing to consider return on investment.

Orders from the communications industry make up 17.3 percent of total machinery orders, the largest share of any industry, and it was mainly capital investment from the communications industry that fueled the mini-recovery seen between 1995 and 1997. Thus, on the one hand, it is ominous for Japan's short-term economic prognosis that recent data for machinery orders indicate that the second phase of capital investment adjustment is being led by the communications sector. On the other hand, the fact that communications orders are now falling rapidly is a welcome development from the standpoint of Japan's long-term recovery prospects, as it suggests that the capital investment adjustment has finally shifted into top gear.

### *Enhancing Structural Reform*

*The overall reform strategy: careful planning but slow implementation*

A renewed impetus was given to structural reforms when in 1996 the Hashimoto government designated six priority areas (administration, fiscal structure, social security, economic structure, financial system and education) and announced that achieving significant process in these areas was one of the most important tasks of the government. The pace of reform appears to have picked up since this announcement. Three factors can account for this acceleration. First, under-performance of the economy in the 1990s made people realize that reforms must be undertaken more quickly. In fact, the good growth outcome in 1996 did not discourage reform efforts, probably because people had become convinced of the necessity of the reforms. Second, the government's strategy of simultaneously dealing



with many issues probably made it easier to persuade interest groups to support the program. Third, Mr. Hashimoto showed strong leadership in advancing the agenda. The reform process in Japan is often said to be slow and cumbersome due to the ever-present need for consensus building prior to action and lengthy delays between agreement and implementation. Although this observation still seems valid, the pick-up in the pace in 1996 and 1997 is encouraging. For example, in the case of the administrative reform it took only about 18 months from the time that a council entered discussions to legislate a basic law to restructure ministries and agencies. This shows that the pace of reform can be speeded up if there is strong political leadership. However, there remains such a tremendous amount of administrative discretion about the timing, scope and detail of reforms that overall progress is very much hostage to continued political leadership.

Reform of the public sector - often referred to in Japan as 'administrative reform' - is one of the key objectives of the current government. Two basic ideas are to shift from discretionary to regulatory administration and to separate policy planning from implementation. Sweeping proposals were made in 1997, but the final Administrative Reform Bill, passed in June 1998, did not contain some of the more significant elements previously suggested. For example, the privatization of the postal savings and insurance schemes was dropped: instead responsibility for the provision of services by the post office, including its saving and insurance schemes, will be transferred to a new Postal Service Agency at some point between 2001 and 2003, which will then be corporatized.

#### *Public Sector Reform: Streamlining but Not Change in Bureaucratic Incentives*

Such a large institution, in competition with private sector financial institutions in a deregulated, market-based system should be operated without any cross-subsidization from other services. Postal savings funds will no longer automatically be transferred to the Ministry of Finance's Trust Fund Bureau to be invested in the government's Fiscal Investment and Loan Program, while the postal life insurance fund has had substantial discretion in portfolio investment decisions since its establishment.

Second, the bill contained no clear separation of the financial and fiscal responsibilities of the

Ministry of Finance, despite the demonstrated risks of an over-concentration of power in one ministry. While the ministry's supervisory role was transferred to the new Financial Supervisory Agency (FSA) in June 1998, there had been calls for financial planning functions to go with it, as there had been suggestions that the national tax administration should be separated from the ministry. In the autumn, however, an agreement was reached with the opposition parties to present a bill in the next Diet session to transfer all responsibility for financial regulation from the ministry to a new Financial Reconstruction Commission (which would also oversee the FSA) by the end of 1999. In the interim the ministry will retain joint responsibility (with the FSA) for financial crisis management.

The bill did make some useful changes, however, by providing for the streamlining of the existing 22 government departments into a single-cabinet office and 12 ministries and agencies, together with a reduction in the number of bureaus from 128 to around 90 by 2001. It also called for a ten percent reduction in the civil services, whose current size is around 510,000. Finally, it gives greater power to the Prime Minister, who will be able to propose fundamental national policies at cabinet meetings, and the cabinet secretariat will be responsible for the design of basic budget, macroeconomic, and security policies. This may clarify the lines of power. Any improvement in efficiency may be limited, however, unless regulatory incentives, bureaucratic discretion and the lack of accountability and transparency in the decision-making process are changed.



## *Japan, the Asian Economy and the Current Crisis*

*Prof. Osamu Nariai*<sup>1</sup>

### *Asia and the Recent Economic Crisis*

Skeptics claimed that the Asian economic miracle was exaggerated, saying that Asia was bound to run into problems eventually. They had raised warning flags a year or two before the Thai crisis, noting that the current balance deficits of South-east Asian countries were as high as or even higher than those of Latin America in 1994. They also argued that Asian economies were not immune to financial crises. The reality was more complex and more critical: collapses in domestic asset markets, widespread bank failures, bankruptcies of many firms, and so on. The economies of Indonesia, Malaysia, and Thailand in particular were closely interrelated in terms of their vulnerability to crisis.

The recent Asian currency and financial crises highlight both the positive and negative effects of global integration on individual economies. The positive effects stem from the influence of foreign capital in the form of foreign direct investment, which accelerates industrialization and export promotion. On the other hand, three negative effects have been pointed out:

- 1) Globalization might enlarge income inequality.
- 2) Quick capital outflow, in particular short-term portfolio capital, disturbs the individual economy.
- 3) A mismatch arises between global standards and domestic institutions and customs - another reason for capital outflow.

Broadly speaking, observers suggested two theories for the currency crisis:

- 1) Budget deficits financed by using a limited stock of reserves made it difficult to maintain pegged exchange rate systems. Therefore, when reserves fell to a critical level, a speculative attack on the currency was generated.

- 2) Defending parity is more costly (e.g., higher interest rates) if the market believes that such a defense will ultimately fail. For this reason, therefore, a pegged exchange rate might mean a trade-off between short-term stability and long-term development.

At the same time, the Asian financial crisis seems to have revealed several fundamental economic weaknesses, which are as follows:

- Fragile fundamentals, such as budget deficits, monetary expansion and inflationary pressure;
- No incentives to abandon fixed exchange rates, because unemployment was not substantial in the early stage of the crisis;
- A boom-bust cycle in the asset market, such as stock and land prices, preceded the currency crisis; and
- Financial intermediaries, such as non-bank financial institutions in Thailand, took out too many foreign short-term loans, often in US dollars, then lent that money to speculative investors. These intermediaries' liabilities were largely guaranteed by the government, which posed the serious problem of moral hazard. Similarly, these countries offered easy access to global capital investors, thus also inducing moral hazard. As a result, external short-term loans brought about an asset bubble, which in turn generated real excess capital accumulation.

Within these contexts, there are two plausible explanations for the crisis mechanisms:

- Speculative money attack (the ASEAN capital movement in terms of short-term portfolio money inflow had been relatively small, except in Thailand, in the previous three years); and
- A fundamental deterioration in terms of current balance deficits with respect to the appreciation of real effective exchange rates.

For these reasons, governments failed to correct money supply expansion by sticking to a fixed exchange rate level (intervention in foreign exchange markets by buying US dollars pushed up high-powered money, which eventually expanded

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money supply). Moreover, the sterilization policy was ineffective because of less functional open-market operation, and financial systems suffered from institutional failures.

### *Impact on Japan and its Role*

The Asian currency and financial crises exerted various influences on the Japanese economy, which has close ties with the Asian economy, including a decrease of exports and increase of imports, deteriorating profits for Japanese companies that have advanced into the Asian region, and the decline of loans to Asia to a non-performing status. Besides this direct impact, because of the drop in the expected growth rate of the Asian economy, which until then had been leading the world economy as a growth center, Japanese companies came to perceive a decline in business opportunities, and so their propensity for capital investment in Asia was adversely affected.

As the ripples from the Asian currency and financial crises began to broaden and deepen, the impact on the Japanese economy came not only directly from the Asian countries concerned but also indirectly from such new markets as Russia and Latin American countries, the developed nations that have close relations with them, and also through the international financial market.

Although the situation has calmed somewhat, it still does not warrant optimism, since the Asian countries concerned continue to face economic recession, and their financial markets remain in confusion. Against this background, Japanese companies continue to see their Asia-bound exports decline, and there is still concern that loans to Asia are going to be rendered increasingly non-performing.

There are, however, some good signs. The exports of Asian countries are beginning to recover, and the business sentiment and earnings of Japanese companies in those countries, especially export-oriented enterprises, are showing signs of picking up. If the Asian economy moves toward an export-led recovery, this development would also be a factor in propping up the Japanese economy through an increase of exports to Asia.

Regarding the domestic economies in the Asian countries, while there are moves to eliminate excessive government intervention, there are also moves to carry out reforms in the direction of further consolidating their market economy systems,

including financial system reforms. Regarding capital transactions, however, there are differences in the responses of South Korea and Thailand, which are seeking to deregulate, and Malaysia, which is moving to tighten regulations. Further discussion is necessary on the issue of capital transfer regulations. Whatever the case, if the recovery led by external demand continues and orderly capital inflows to the Asian countries are resumed, it will lead to an expansion of domestic demand, and the economies of Asian countries will hopefully move toward recovery. In that case, hopefully the Japanese and Asian sides could form a mutually beneficial cycle, in which the recovery of Japan's economy would contribute to the recovery of the Asian economy and *vice versa*.

Japan is expected to play a role especially through the expansion of imports following domestic economic recovery, the supply of funds for financial stability in the Asian countries, and human resources development via technical cooperation. Regarding funds for financial stability, the New Miyazawa Initiative is extending funds in a form that is different from the financial cooperation of the International Monetary Fund (IMF).

### *State of Progress of the New Miyazawa Initiative*

#### *South Korea*

In a meeting of the leaders of Japan and South Korea on 8 October 1998, Japan indicated untied loans through the Export-Import Bank of Japan (JEXIM) of the yen equivalent to approximately US\$2.35 billion.

In a meeting of the finance ministries of Japan and South Korea on 15 January 1999, on the occasion of an Asia-Europe Finance Ministers' Meeting, Japan announced its commitment to short-term financial support of up to US\$5 billion.

#### *Malaysia*

In a meeting of the leaders of Japan and Malaysia on 15 December 1998, on the occasion of a Japan-ASEAN summit, Japan indicated financial support totaling approximately US\$1.5 billion.

[Export industry support two-step loan - JEXIM): about US\$500 million; seven yen credits (Overseas Economic Cooperation Fund): about US\$1 billion.]

#### *Thailand*

In a meeting of the leaders of Japan and Thailand on 16 December 1998, on the occasion of a Japan-

ASEAN summit, Japan indicated financial support totaling the yen equivalent of US\$1.85 billion.

[Loans for economic and financial structure reforms (JEXIM, co-financing with the World Bank): up to the yen equivalent of about US\$600 million; manufacturing industry support two-step loan (JEXIM): yen equivalent of about US\$250 billion; agricultural sector program loan (OECD, co-financing with the Asian Development Bank): yen equivalent of about US\$250 million.]

#### *Philippines*

In a meeting between the finance ministers of Japan and the Philippines on 15 January 1999, Japan indicated financial support totaling the yen equivalent of US\$1.4 billion.

[Electric power sector reform program loan (JEXIM, co-financing with the ADB): yen equivalent of about US\$300 million; banking system reform project loan (JEXIM, co-financing with the World Bank): yen equivalent of about US\$300 million; private-sector development two-step loan through the Philippines Development Bank (JEXIM): yen equivalent of about US\$500 million; Metropolitan Manila air pollution improvement program loan (OECD, co-financing with the ADB): yen equivalent of about US\$300 million.]

#### *Indonesia*

When the Japanese Deputy Minister of Finance for International Affairs visited Indonesia on 5 February 1999, he delivered a letter from Finance Minister Miyazawa to the President in which Japan indicated financial support totaling the yen equivalent of about US\$2.4 billion.

[Parallel loan with the IMF's expanded credit measure (JEXIM); co-financing with the ADB's program loan (JEXIM); co-financing with the World Bank's program loan (JEXIM): yen equivalent of about US\$1.5 billion; commodity loans, etc. (OECD); health and nutrition sector development program loan (OECD, co-financing with the ADB); social safety net program loan (OECD, co-financing with the World Bank): yen equivalent of about US\$900 million.]

#### *IMF Recommendations and Lessons of the Asian Crisis*

In light of the crisis, the IMF recommended to these countries the following:

- The tightening of monetary and fiscal policies;
- The establishment of market discipline; and

- Financial and banking system reform.

The IMF has been criticized by some economists, such as Martin Feldstein, who argued in *Foreign Affairs* ("Refocusing the IMF," March/April 1998) as follows: "The IMF is now acting in Southeast Asia and Korea in much the same way as it did in Eastern Europe and the former Soviet Union - insisting on fundamental changes in economic and institutional structures as a condition for receiving IMF funds." Additionally, Feldstein pointed out the following: "The IMF should eschew the temptation to use currency crisis as an opportunity to force fundamental structural and institutional reforms on countries, however useful they may be in the long term, unless they are absolutely necessary to gain access to international funds." As a conclusion, Feldstein asserted that the "IMF should work with countries that have not yet reached a currency crisis in order to prevent the larger current account deficits or the excess short-term debts that could later precipitate a crisis."

In view of the above argument, we could draw the following lessons from the Asian crisis. First, regarding the sequence of liberalization of financial markets, a country should liberalize its domestic financial system before opening up to foreign capital. Second, financial liberalization requires the strict market discipline of financial institutions. Third, a flexible exchange rate system is fundamentally important. Free capital movement and pegged rates are a dangerous mix. Fourth, financial markets need reliable information to work efficiently. Fifth, in promoting the global integration of capital, the establishment of a resilient regional capital market is an urgent task so as to reduce the 'capital flight shock'. Lastly, in creating an individual capital market in each country, the concept of a regional monetary fund (such as the 'Asian Monetary Fund' recently propounded by the Government of Japan) helps to reinforce the architecture of the global financial market. It is worth noting that such a regional financial institution is expected to function on a regional basis and with looser conditions than the IMF.

An equally important issue is when and how such a regional monetary fund will be established. Obviously, the setup would require financial support from the developed countries.

## Japan's Software Industry

Kazuhiko Adachi<sup>1</sup>

### Japan's Information Technology Industry - Current Position and Future Trends

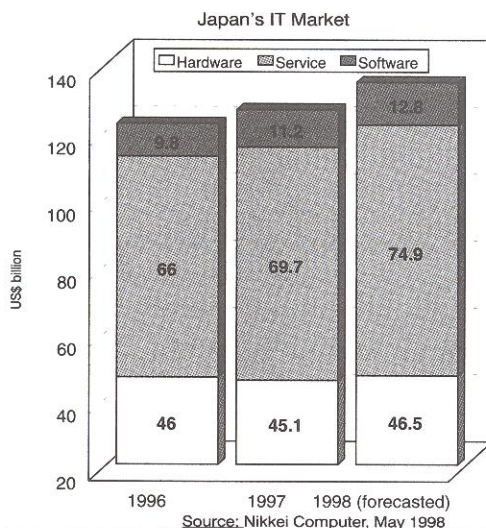
The information technology (IT) industry includes equipment, services, software, etc. In 1997, its market size was US\$1.8 trillion. The largest market is that of the United States, amounting to US\$643 billion and representing 35.7 percent of the worldwide market. After the American market comes that of Japan, amounting to US\$317 billion and representing 17.6 percent of the worldwide market. The rest of the world is in comparison a very small market.

**Table 1: Worldwide IT Market, 1997**

	Market value (in US\$ billion)	Share of world- wide market
US	643	35.7%
<b>Japan</b>	<b>317</b>	<b>17.6%</b>
Germany	119	6.6%
UK	102	5.7%
France	91	5.1%
Others	528	29.3%
<b>Total</b>	<b>1,800</b>	<b>100</b>

Source: JISA

In 1997, there was a three percent increase in the IT industry as a whole in Japan, although there



was a slight decrease in hardware. The figures for 1998 are expected to be seven percent higher than those for 1997, and those for 1999 eight or nine percent higher than those for 1998.

It should be mentioned at this point that large companies – e.g., Kodak – often give technology to other companies.

### The PC Market in Japan

Personal computer (PC) and PC server shipments drive the Japanese hardware market, and although there was a slight decrease in this market in 1997, 1998 witnessed a steady increase; in regard to PC server shipments, there was a large increase of more than 20 percent. It has been estimated that some 7.6 million units will be shipped in 1999, representing a nine percent increase.<sup>2</sup>

In this context it should also be noted that the PC business in Japan is connected to income and also, more recently, to the popularity of the Internet.

### The Software Market in Japan

The software market in Japan is currently worth approximately US\$12.8 billion. A lot of decisions need to be made with regard to this sector, not least of all because of the Y2K, the year 2000 problem, which we also refer to as the 'big bang'. Although we have sales problems, the Y2K presents a big opportunity because everybody will have to change his or her system. There are approximately 7,000 software companies in Japan, which gives a general idea about the scale of its software industry.

With regard to the new types of technology, there is the semiconductor/IC card, mobile communication, the Internet, and multimedia. As for new applications, there is electronic commerce (either B to B or business to business, and B to C, or business to consumer), digital consumer electronics, electric government, and Enterprise Resource Planning (ERP)/supply chain management.

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<sup>2</sup> Figures from Nikkei Computer, May 1998.

Enterprise Resource Planning (ERP) is a computer system that is gradually gaining a larger share of the market. It includes everything: for example, accounting, household management, logistics, and factory management.

An extremely important factor of the new technologies – whose development, in some cases, began more than ten years ago – is that it is getting increasingly cheaper to obtain. This includes the semi-conductors for the mobile communications, Internet and multimedia. Although some of the technology is relatively old, it has become more important as people have become aware of the different applications.

Current technology also gives one an idea about the future of houses and daily life. In Japan, the Internet refrigerator, for example, already exists, but nobody uses it. The fridge is linked to a supermarket, which receives signals and then dispatches the necessary items accordingly. The supermarket can display 'today's discount information' and functions similar to TV shopping. The cost is high but it would be very useful for certain groups of people, such as the elderly.

Digital electrical appliances for everyone and daily use also include devices such as car navigators and the PDA, which is a small PC that controls all the machines inside the house: the television, air conditioning and security systems, etc. Another example is mobile telephones that, in addition to the usual functions, allow for holding video conferences.

Obviously, all of this entails investing massive amounts of money in the infrastructure. The Japanese Government, for example, is currently thinking of having a nationwide optical fiber network. Moreover, the Japanese Government and Malaysia's Prime Minister are currently in the process of creating an electronic government by connecting all the governmental offices to one network in order to facilitate communication. Needless to say, this is a very ambitious project.

#### *What exactly is IT industry?*

The IT industry comprises of hardware (PCs, servers, work stations, main frames, etc.) and hardware components such as semiconductors, boards, disks (hard disk, floppy, CD ROM, etc.), printers, displays, etc., as well as the corresponding software and services (e.g., consultancy, computer centers, Internet providers, etc).

Hardware components and the assembly business require huge investments. For example, in order to develop a new server or work station, one needs to invest at least US\$5 million in research and development if the outcome is to be something modern and competitive. For good investment, I personally recommend software and services, as this is a very easy field to penetrate.

To enter the software industry one needs lots of money and a lot of hi-tech. The following software sub-groups can be differentiated:

- Operating systems (e.g., Windows, NT, UNIX, MVS, etc.)
- Databases (e.g., Oracle, Sybase, DB2, SQL server, etc.)
- Languages (e.g., Cobol, Fortran, C, C++, Java, etc.)
- Middle ware (e.g., Tuxedo, CICS, IMS, etc.)
- Network and communication software
- Development tools
- Application software

In 1992, a student at Helsinki University announced the UNIX-based operating system on the Internet, which resulted in somewhere between 50,000 and 100,000 system engineers throughout the world spending their time trying to improve this system. The UNIX-based system is the biggest competitor of Windows NT, with both having approximately 20 million installations throughout the world. As Internet-made new products are becoming a new culture, one can say that the biggest competitor of Microsoft is a nonprofit center.

**Table 2:**  
**Application Software (examples)**

#### By industry:

- Finance (securities, banking, insurance, etc.)
- Manufacturing
- Distribution
- Industry
- Public sector
- Entertainment

#### By function:

- Accounting/treasury
- Personnel management
- Decision support
- Sales/marketing
- Mail/group ware

There are many applications in software and it is easy to reach the market but extremely hard to compete with the big companies such as Microsoft and IBM. Of course, each industry needs different software.

I would say that my company is dominating almost all of Japan. Amongst other places, we export products to California, the Philippines and Malaysia. My advice to the Palestinians is as follows: if you want to be a successful businessman, you should know that business is business; do not believe in metaphysics, but be a realist.

- independent infrastructure and/or geography (e.g., India, Israel, Russia, etc.);
- involvement of labor intensive (but not low level) work, which is usually available;
- promotion of education.



#### *Characteristics of Japan's software industry*

There are nearly 70,000 repair shops in Japan, and at least 7,000 software companies, 90 percent of which are very small. The largest one is the NTT DATA Corporation with 10,098 employees. To give you an idea, this company has a revenue of 699 billion Yen (US\$5 billion) and a profit (before tax) of 30 billion Yen (US\$230 million).

The software industry in Japan has a 12 percent annual growth rate (1996-1997) and a share of more than 90 percent university graduates among its employees. Currently, it is characterized by small capital investment per person.

One problem the industry faces worldwide is the illegal copying of software programs. In order to stop people from doing this, one needs to provide integrated services, which is something that smaller companies are unable to do.

#### *Opportunities for Developing Countries*

There are also possibilities for developing countries to infiltrate the global market for PC and software items. Opportunities include the following:

- small investment - for example, one PC in a garage. Distribution costs can be kept low, i.e., via the Internet, which also provides access to a worldwide market. The other side of the coin, however, is that there is lots of competition;

## Trends in Japanese High Technology Ventures

*Kazuhiko Adachi*<sup>1</sup>

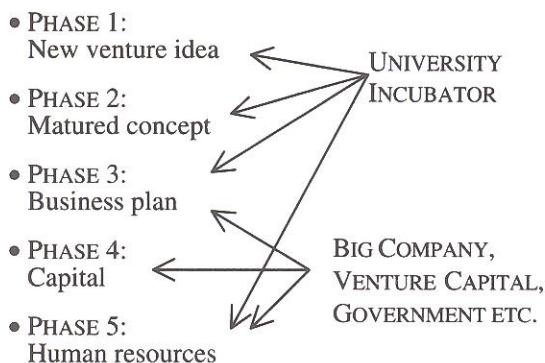
The Japanese venture movement is characterized by the following:

1. Technology innovation
2. Restructuring of large company
3. Industrial promotion of local government
4. Financial institution investment in small venture firms
5. Central government's shift in policies (from big to small)
6. Change of employee's attitude to company (not permanent employment)
7. Influence of American business ventures

In order to encourage the software industry, one needs incubators like the 20 or 30 new venture companies in Israel for which the Israeli Government pays all the expenses, including the salaries of the employees for two years. Of course, capital is also needed, but finding it is not always impossible. I have met one Palestinian, for example, who gathered almost US\$1 billion from 1,000 wealthy Palestinians, all of whom invested US\$1 million each.

In the Palestinian case, one should think about outside entrepreneurs, as the Palestinian Authority does not have the money to subsidize the capital. The government is important and in Japan, like in Israel, the local government helps a lot.

**Figure 1: How to Establish a 'New Venture'**



<sup>1</sup> Mr. Kazuhiko Adachi is Chairman of the International Committee of Japan PC Software Association and President of Intelligent Wave Inc.

Almost one quarter of my company's capital came from venture capital, which is quite abundant in Japan. First a new idea is developed and then one goes through the different phases, all of which are important. The business plan cannot be formulated by oneself. Note that any venture that is missing one of the phases will not succeed. You also, of course, need the know-how.

Sometimes, the companies are family-oriented, which is often the case in Palestine. A very good model is Taiwan, which used to be a Japanese colony but whose people are Chinese. Taiwanese businesses are family-oriented and include every single family member, which is fine as long as the business makes money; if it fails, everything will be lost.

*What is a hi-tech venture?*

There are three main areas of hi-tech in Japan:

- Changing core technology
- New products or new services that create new markets
- Mainly 'software', 'mechatronics' and 'biotechnology'

**Table 1: Small Business in Japan and the United States (1996)**

	Japan	USA
Employers	98.9%	99.7%
Employee	77.6	53.0
GDP	51.0	51.0
Innovation	-	55.0

Small businesses are a very big business in Japan. Almost 77.6 percent of the people work in small companies and produce 51 percent of the GDP. In the United States, some 53 percent of the people work in small companies and produce 51 percent of the GDP.

It can probably be said that hi-tech companies have taken the lead when it comes to jobs. Research involving Sony Omron, Honda and Kyosera has shown that hi-tech ventures create 'new jobs'.



**Table 2: Source of Core Technology in Japan**

	Software	Mechanics	Bio-tech
Original	71%	95%	43%
University	6	0	43
Customer	10	0	0
Oversea	3	0	0
Others	10	5	14

Source: Research conducted by a Japanese university in 1997.

Last year, the owner of a Japanese software company made more than US\$100 million net profit. Nevertheless, making money in Japan is very tough, more so than in the United States. Japan must develop a tax system that meets the needs. Currently, people pay up to a maximum of 65 percent tax.

*Participant:* If you invest here in Palestine now you get 15 years without paying taxes.

*Mr. Adachi:* Yes, in Japan investors usually pay low taxes.

*Participant:* If you invest outside Japan, are you subject to double taxation?

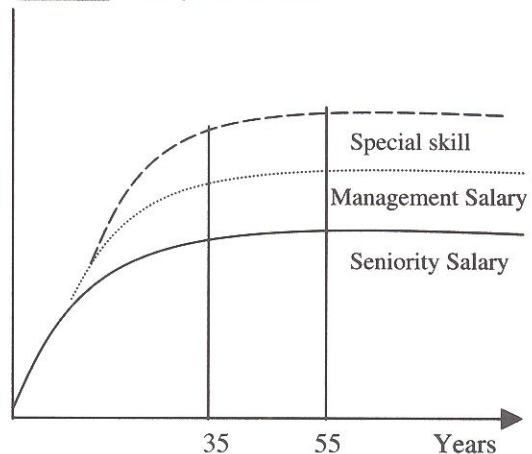
*Mr. Adachi:* For my American company, I pay taxes to the American Government and for the investment in Japan, I pay the tax to the Japanese Government. Fortunately, the United States is very innovative in this field and there is no double taxation.

The original concept is the most important one when it comes to developing a product. What kind of market exists? What kind of technology is available? How will the product be sold? These are the things that should be included in the original concept. If you do not have a market here, think about other Arab countries. You have a big market: from Indonesia to Morocco, it is yours.

If we compare the American and the Japanese policies, the American Government does much more for the American companies than the Japanese Government does for the Japanese companies. However, the Japanese Government recently changed its policy and one of the biggest alterations is that whereas until recently, it had concentrated on helping large companies only, nowadays, it is trying to help small ones.

The Japanese employer-employee attitude is unique. For example, even my company hires university freshmen. In Japan, there are not so many computer graduates, and in the old days, I often hired engineers who were not computer specialists – marine engineers for example – and trained them. My company still trains everybody, computer specialists being so few and far between. All Japanese companies concentrate on training all their employees, which is probably something only found in Japan.

Whereas American companies pay their employees according to their skills, Japanese companies pay their employees according to their achievements and salaries are divided into three parts as follows:

**Figure 2: Salary Calculation**

For example, in my company the youngest director has the same management salary as any senior one, and the two salaries only differ in regard to the seniority and special skills salaries.

Many people retire at the age of 55 and in some cases go on to join a new company, even though their new salary does not reflect their 'achievements', only their experience.

In Japan, if you want to fire people, you give them incentives. In a Japanese company, the retirement money depends on the current salary of the employee in addition to the number of years that he has been with the company. The total sum comes to almost five or six times your annual salary, and many Japanese companies, if they want someone to leave, will say, "I will give you twice your retirement pension at one time." The government pension starts at 65, so if

you are fired at 55, then you have to rely on your company pension to see you through that ten-year period, which can cause some serious problems. However, things are changing, especially for the younger generation of employees, most of whom can now choose between two systems: one is the original salary system, the other, a system whereby one can get a percentage of his/her retirement money from the beginning in addition to the regular salary. The younger generation of Japanese thinks very much like the Americans and consequently, at a certain age many young Japanese decide to start their own company.

In the past, the government had venture capital but today, almost all the financial companies have their own venture capital fund and there are more than 200 or 300 venture capital companies, all of which are willing to invest in small companies. These days, if you are capable enough, you can easily get money. Because of the recession and people being fired, many small ventures started up, and in some cases, these were later bought up by some of the larger companies. If you are successful, you have two choices: you can be totally independent or you can sell your company and if you work hard, you can make a lot of money, whatever it is that you decide to do.

*Participant:* In Palestine, nowadays, we try to encourage foreign investment and Japan is one of the countries in which we are interested. What would you suggest we do in order to reach Japanese businessmen?

*Mr. Adachi:* I personally visited many places here during the last week. I met with people from the Software Association and we decided to communicate in order to learn more about each other. I also asked them to join SITO, the Southeast Asia Information Technology Organization, which is made up of 800 companies in Japan, Taiwan, Hong Kong, Singapore, Indonesia, Thailand, Malaysia, South Korea and India. We can help 'match' the Palestinian companies with other companies; some people need technology, others a new market, others materials, etc. If Israel wanted to join us, I do not think that Malaysia and Indonesia would agree, but if you wanted to join us, it would be a different matter.

## Overview: The Axis of Japan's Foreign Policy

*HE Yoshiji Nogami*<sup>1</sup>

The Japanese approach towards the peace process has always been very simple: we want to see changes on the ground, or more specifically, a vast improvement in the various aspects of the daily activities of the Palestinian people. When I first came to this process, it was still under Shamir and each time this word 'Palestine' came up, the Israelis would replace it with 'Judea and Samaria'. Later, they referred to the 'Palestinian Occupied Territories' and now we are talking about 'Palestine', so things have certainly changed. I started dealing with the process, the environment and various other issues at the time of the Jericho Agreement, and I must say that I have noticed some tremendous improvements.

Many of my colleagues, Japanese and foreign alike, who are involved in day-to-day foreign policy formulation are facing a problem, which is the rapid speed of economic and cultural 'globalization'. Some people refer to the result of globalization as the 'borderless society', where activities are no longer within the traditional government setup. The other side of this globalization is the growing hostility amongst those who believe that it is not to their advantage. During the course of last year, we at the OECD were negotiating what we call the Multilateral Arrangement in International Investment. We wanted to formulate an international code for investment, being well aware that those who feel they are not

benefiting from globalization regard international investment in a very poor light. Amongst these groups are the labor unions in the United States and Europe and the environmentalists, who insist that international transnational investment is detrimental to the environment. Even today, many human rights organizations are saying that international investment is harmful to the underprivileged and leads to social evils, such as child labor. My personal belief is that if we were to have a code of behavior with regard to international investment, we would be able to mitigate some of its negative impacts. The organizations that are calling for countries to be allowed to retain their own cultural identities say that international investment could undermine this cultural individuality, so at the same time as there are forces that are pushing for globalization, there are also counter forces, which is making the economic discussions increasingly complicated.

In order to achieve the European Union's (EU) Maastricht criteria, many countries introduced some austere provisions and the people who are against globalization say that because of those measures certain sectors of the society have been hit very hard, which is true: in many countries the provisions for the fairly lucrative welfare system had to be cut and the educational budget streamlined. To put it simply, there are countries that can keep up with the rapid speed of globalization and there are those - such as the African states - that cannot.

Another fundamental problem that we are facing concerns the ideological differences. The Russian Federation is now applying for OECD membership, while only two days ago we witnessed a ceremony in Washington to mark NATO's acceptance of Hungary, Poland and the Czech Republic. The OECD was based on this differentiation between the so-called Western industrialized democracies versus the socialist camp, which was utilized very conveniently in fostering solidarity amongst the former. Right now, however, everybody is talking about markets, about the OECD's expansion, etc., and the ideological differentiation is gone, while the roles and missions of an international organization like the OECD are becoming

<sup>1</sup> Mr. Yoshiji Nogami is the permanent representative and Japanese Ambassador to the Organization for Economic Cooperation and Development (OECD) in Paris. In 1991 he became the Coordinator for Environment and Water Resources to the multilateral peace talks, and until 1994 traveled frequently to the Middle East working on issues such as sewage, solid waste management, and ground aquifers, etc.

[The 29 OECD member states - all Western industrialized democracies that together account for almost 70 percent of the world's GDP - work toward economic policy coordination, trade policy and development policy. Initially, the OECD was established as the economic and intellectual wing of NATO and the implementing organization of some of the Marshall Plan, but it has gradually changed. The United States and Japan alone fund some 50 percent of all the OECD's activities. Recently, the Slovak Republic, the Russian Federation and Argentina have applied to become members.]

ing increasingly difficult to define, especially as some countries would appear to be obsessed with furthering their individual interests. It is extremely difficult given this globalization and the loss of this easy ideological demarcation to facilitate coordination amongst the different countries of the world.

Globalization is a very tiring process as one has to try to coordinate things whilst considering everyone's position. Unfortunately, now that the Cold War is no longer there to draw people together, national interests would appear to have become many people's major concern. Consequently, it is often difficult to reach a consensus on the difference between a so-called 'diversified threat' and a 'global issue'. Take North Korea, for example, is it a global issue or merely a diversified geographical threat? At this point, it should be noted that threats are sometimes diversified not only in geographical terms, but also in terms of nature and modality.

Japan is still surrounded by divided nations, i.e., the Korean Peninsula and China. The Asian security climate is certainly much different to that of Western Europe, and whereas in the past such issues could be easily understood and shared by almost all the different countries, the tendency now is for countries to talk about their own limited national interests and to pay little attention to those of other states that do not – or so they believe – concern them. Ask any Japanese politician, for example, for his position on Kosovo and you will find that he does not know or care; you will find exactly the same thing when you ask any European politician to state his position on the Korean Peninsula.

In Asia, unlike in Europe, for instance, the diversity of the nations in the region is very striking. For instance, I believe that in Europe, the richest country is maybe five or six times richer than the poorest country, so it is difficult to have a sort of homogenous region. The Japanese GDP is larger than that of the rest of the Asian countries put together, we still have two countries that are strongly professing the communist ideology, we have the largest populated country in the region – China has a population of 1.4 billion – which is taking a somewhat different political stance from the rest of the region, and so the diversity of the states in our region is very striking. As the second largest economy in the world, Japan's

position is to ensure that the security and stability in the region are maintained but, due to its past experience, to do so without playing any kind of military role, even though we have a very strong presence in other regards. Japan's decision not to become a military superpower is one of the fundamental elements of Japanese foreign policy, and on the basis of that, a number of systems and arrangements have been built, a key element of which is the security alliance with the United States.

In 1945, Japan had little choice concerning its potential as a military power as it had lost the war and been ordered by the occupying force to refrain from building a military capability. However, since regaining independence there has been a conscious decision on the part of the Japanese people to stick to this path, which, in fact, is now an important element of the Japanese identity. There are some older Japanese who still remember the war with a certain sentimentality, but I could say that 90-95 percent of the Japanese people would be against the idea of Japan becoming a military superpower.

Japan contributed to the Gulf War but only in the form of providing and sending in a few mine-sweepers. I was in charge of the Middle East at that time and I still remember my first visit to the region in November 1990, when I went to Baghdad to bring back what President Saddam Hussein called 'house guests'. One should not forget, of course, that Japan relies heavily on its oil supply from the Gulf, its largest suppliers being the UAE, Saudi Arabia and Kuwait. The strong alliance with the United States was another reason why Japan supported operation 'Desert Storm', as was the fact that Japan did not accept the invasion of one (Arab) country by another. Japan's role in the Gulf War was actually the subject of a big domestic debate because in order to fund the operations, certain taxes had to be raised. Fortunately, people eventually realized that this had to be done to ensure the stability of the Gulf area, particularly the southern part, and to stabilize the international energy market.

The Japanese-American relationship is strong but very complex. Apart from the security arrangement, the United States is the largest market for Japan and Japan the single largest market for the United States, excluding Canada. Thus, the Japanese-American relationship is in fact a key ele-

ment in Japanese foreign policy. Many of the Asian countries believe that Japan is too close to the Americans, but in spite of what they say publicly, most of them welcome this very strong relationship. In the past, the United States was complaining about the strength of the Japanese economy, whereas for the last couple of years it has been complaining about its weakness. Certainly, Japan's economic situation is very difficult and the Japanese market is contracting rather than growing. Accordingly, the major economic agenda between Japan and the United States in recent years has involved finding ways to restore the growth of the Japanese economy.

There is also a very complicated debate going on in Japan concerning the defining of roles and missions on the part of Japanese involved in the US-Japan Security Treaty, labeled the 'defense guideline debate', which centers around the critical situation in the Asia-Pacific region and the roles and missions of the respective forces. This is certainly a difficult issue but we have to deal with it because of the diversified threats that still exist in the Asia-Pacific region. In the middle of last year, for example, North Korea started experimenting with this so-called satellite launching program, but the 'satellite' was actually a ballistic missile, and at the moment, the issue is at the center of a big dispute involving Japan, China and the United States. In addition, the China-Taiwan problem has yet to be solved and we are still faced with a divided Korea, so the situation in the Asia-Pacific region definitely requires a more specific definition of the roles and missions of the various forces in the region. With regard to North Korea, nobody can predict what course of action it may or may not take; it is a secluded country and we do not know anything about what is going on there, except that the North Koreans are spending nearly 30 percent of their GDP for military purposes. Japan has been trying to establish some form of 'normal' diplomatic relations, but it is not such an easy thing to do.

China, on the other hand, is a more open country and we have normal relations with it, although, of course, the Chinese leaders are constantly talking about the resurgence of militarism in Japan, partly because of the missile defense programs that is being carried out jointly with the United States. The one major unstable and unknown element in the Asia-Pacific region, however, is North Korea.

As to our position on the China-Taiwan relationship, we recognize one China and do not have any diplomatic relations with Taiwan.

*Participant:* How does Japan look at the nuclear competition between Pakistan and India?

*HE Yoshiji Nogami:* Japan is the only country that has ever suffered from this nuclear proliferation in the history of mankind and it strongly condemns any form of nuclear proliferation, which is why it suspended relations with both countries and is asking them to sign the CTVG.

*Participant:* What about the Israeli nuclear program?

*HE Yoshiji Nogami:* The Israelis - like the South Africans in the past - are not organizing any testing.

Another important element in Japanese foreign policy is the relationship with Russia. Japan has not yet normalized its relationship with Russia nor signed a peace treaty, although it is supporting Russia's recovery and development and welcomes the idea of a strengthened and democratic Russia, partly because it would enable Japan to negotiate the return of the territories taken by force after the end of World War II. Quite recently the Japanese Prime Minister met with President Yeltsin and Japan and Russia will continue to work on their peace treaty based on three principles: realism, historical justice, and mutual benefit. As a part of this exercise, Japan is trying to set up a mutually acceptable borderline with Russia and there is no doubt that once this aspect is settled, a peace treaty will be signed. Apart from this, there is the fact that Russia is a neighbor and Japan does not like to see it in an economically distressed situation. The problem with Russia is that while two thirds of the Russian territory is in Asia, two thirds of the Russian population is in Europe, and the Russians have yet to come up with a foreign policy concerning their Asian neighbors. In addition, Russia has been suffering from an extremely high rate of inflation and a substantiated negative growth rate over the past couple of years, whilst its discussions with the International Monetary Fund (IMF) are not proceeding very well, which are further reasons why Japan has already provided it with nearly US\$23 billion.

Although the Japanese would like to see Russia return Japanese land, they understand that in order to have a more meaningful discussion with Russia on the issue of the territory, the Russian economy has to improve. Russia would probably like to normalize the relationship with Japan, not least of all because it wants to take advantage of the Japanese economic and technological capability. At the same time, however, the Russians know that their economy is in a very difficult situation and they do not want foreign countries to take advantage of them. Nevertheless, I believe that the severe economic conditions will help the government in explaining to the Russian people why they should try to understand the merits of normalizing the relationship with Japan. However, one must remember that the Russians have been suffering from the Cold War mentality for many years and that there are still members of the Russian Parliament whose vision is not broad enough to allow them to see the merits of Japan and Russia resuming normal relations.

Although US\$23 billion is a huge amount of money, it is less than half of what Japan gave during the past year to the countries in Southeast Asia that are suffering as a result of this economic crisis - Indonesia, Malaysia, Thailand and Korea - to whom we gave US\$55 billion. From the summer of 1996 onwards, many Asian countries have gone through this very difficult economic situation, which started in Thailand then moved down to Malaysia, Indonesia and the Philippines. Hong Kong and Korea were also affected by the so-called 'Asian financial crisis'. The currencies of these countries were overvalued for a very long time, which resulted in an ever-increasing current account deficit. Developing countries can normally afford to have this kind of deficit because there is a growing need for development, but if you have a current account deficit, you need to have funding; if you have a current account deficit and long-term funding, over time, the goods and capital that are imported will help you to cover this deficit. Therefore, developing economies will have a current account deficit in order to strengthen their future export capacity or domestic development. The source of funding is crucial. Long-term funding is very useful, but direct investment is even better because you do not have to pay it back. Unfortunately, many countries in Southeast Asia relied heavily on short-term capital, and found themselves in a mess when this funding started

to decrease, realizing too late that the money imported from overseas sources had not been properly utilized. The ones - mainly banks - who were putting money into Malaysia and Indonesia did so believing that the money would be okay because of the increase guaranteed by the government, so there was this concept of implicit guarantee, what we call 'moral hazard'; the lenders thought that the money would be okay not because of the projects themselves, but because of the backing while the borrowers also thought that the money they borrowed would be okay. Those are the causes of the Asian crisis. Everybody thought that it was a wonderful economic miracle and wanted to be a part of it, but no one had bargained on the failure of this implicit guarantee, meaning more hazard, a lack of governance, and the fact that the money was not spent effectively, which is why every time something happened, the lenders would withdraw their money. Because of this sudden collapse of the economic bubbles in the Southeast Asian countries, they are undergoing a very strict process of restructuring. One of the major aspects of Japanese foreign policy is to help these countries by providing both money and technical support and by assisting in bringing in more globalized standards pertaining to accounting systems and public bankruptcy procedures, etc.

I believe that the Southeast Asian countries will come out of this crisis because they have a strong production capability. Despite the depreciation of their own currencies, they are regaining export competitiveness. One major problem at the moment is that there are not so many big markets for their exports. The American economy is now the only truly booming economy but the Americans are saying that they do not want to be the market of last resort, while the European market is contracting, so another important task is for us to restore the growth in Japan. Once the Japanese economy is back on its normal path, Japan's support to the Southeast Asian countries will be strengthened.

*Participant:* Is it not true that Japan gave US\$10 billion to Indonesia under Suharto and that economists and politicians were very critical, saying "Why give US\$10 billion to a country where the system is corrupt?"

*HE Yoshiji Nogami:* Indonesia is the second largest host of Japanese private investments. To date,

we have helped in establishing an electricity network and improving the telecommunications and other basic infrastructure systems. Under President Suharto, the government was in a way very autocratic, but there was certainly not a massive infringement of human rights. People say Indonesia is corrupt, but even though there were all these cronies and the so-called 'family business', there was substantial development under Suharto. In fact, there was strong support for President Suharto, but the economic downturn was very sharp and toppled all the system. Indonesia has a population of 180 million, and it is currently the largest but slowest boat among all the Asian boats; if no attempt is made to strengthen it, then it will slow down the whole Asian fleet, thereby determining the pace of the Asia-Pacific cooperation and resulting in a further decline of the Asian economy.



## *Political Relations Between Japan and the Middle East*

*Prof. Akifumi Ikeda<sup>1</sup>*

Japanese policy in the Middle East, especially in regard to Palestine, has had relatively little to do with politics up until very recently. Nearly a decade ago, I had an opportunity to speak very closely with one of our prominent ambassadors who served in various places including the United States and the Middle East. He was once our ambassador to Saudi Arabia and he was telling me about how he had been called back to Japan from Riyadh to lead the trade negotiations with the United States, which were certainly no fun for Japan. In fact, the Ambassador said that it was one of the worst assignments that he ever had, but he added that at least it got him out of Saudi Arabia. Knowing what I did about the Middle East, I was very sympathetic. The Middle East was at the time no fun for anyone and in many ways living there was likely to become more difficult, which is why many people would prefer to live somewhere else.

There is some good and some bad news. The bad news is that Japan is not particularly fond of this part of the world, but the good news is that it still feels tremendous concern in regard to what is going on in the region. What makes the subject so complicated? As with most places, there are two obvious answers. One is geography - in this case post-strategic and economic - and the other is history, with the two being closely connected. If the Middle East were closer to Japan, its history and impact on it would be different. Europe and America are situated farther away in terms of purely geographic distance, but they are the source of the modern civilizations, whereas the Middle East, the cradle of some of the world's oldest civilizations, neither threatened Japan nor provided it with models. China, another ancient civilization, was a threat to Japan as well as a model, but the West gradually replaced it over the past 150 years, during which Japan's record of contact with the Middle East was marginal.

The Japanese image of the Middle East was neither bad nor good. In general, there was a vague sense that something mysterious was happening in this part of the distant world because the Middle East is the point of contact of three of the world's greatest religions, that is to say Judaism, Christianity and Islam, which all emerged in the region. However, all those monotheistic religions were alien to the Japanese, their religious traditions and their way of thinking. Japanese people tend not to accept what are called absolute values or absolute teachings, and they are accustomed to thinking according to a common Japanese expression that means 'In a fight, both parties share the prey'. Some even argue that the era of monotheism had been replaced by the era of polytheism and that what Japan could contribute to the world was, like the case of computer science, this idea about religion.

In those post-Cold War years, there was a decline of Western prestige and ideological influence, which resulted in the rise of multiculturalism. While in the West people talked about the end of history or clash of civilizations, Japanese scholars were arguing that Japan had become a major economic power because of Shintoism and the spirit of tolerance and polytheism coupled with respect for labor. Now that the economic landscape has turned out dramatically black and the economies are being torpedoed one by one, some people are saying that the 'American Century' is likely to go on well into the next century. It is extremely difficult for the Japanese to become familiar with the Middle East. Of course, some Japanese accepted Christianity after encountering the West and deciding to follow its path in the process of our modernization, but this was mainly because the Christian West had conveniently separated the scientific knowledge from the idea of a whole. With regard to communication with other Japanese, the one million Christians in Japan are faced with a great handicap in their attempt to establish a dialogue, and the problem is how to find a common ground in the fundamentals of their respective religions.

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In most ways, the Middle East differs from all parts of the world. In Japan, the same people have been settled where they are for thousands of years. In the Middle East, on the other hand, all kinds of different people have been coming and going throughout history, not only people native to the region but also people such as Alexander the Great, Julius Caesar, the Crusaders, Genghis Khan, Napoleon, etc; eventually, all the great conquerors of history left their marks here. In some cases they found or recruited local supporters, and in others, local supporters invited them in. The Middle East has been a theater for other people's wars, which is another reason why Japan has tended to shun it. In short, the very odd political landscape of the Middle East is so confusing and troublesome that the Japanese prefer not to even think about it.

This lack of interest in the region is facilitated by Japanese ideas concerning Islam and the Moslems. Even in Southeast Asia, Japan, after occupying Malaysia and Indonesia, both of which have a large Moslem population, did not develop a positive attitude *vis-à-vis* Islam. Since then, the Japanese have turned their attention to economic growth and their contacts with the Southeast Asian countries were predominantly seen in economic and technological not religious and cultural terms. With the exception of the particular interests of area specialists, artists and historians, Islam and Moslems were not an object of attention for the Japanese. Although the oil shock of 1973 resulted in a lot of sudden attention being directed towards the Moslem World by the Japanese press, this was for economic and not military or other reasons. Since then, there have been a few international events during which Islam and the Moslems drew the attention of the Japanese, one of which was the report on the terrorist military and political activities of the so-called Moslem fundamentalists. This was of great importance to certain intellectual circles, as were the reports on various cultural conflicts; for example, the destruction of the great Buddha statues in Afghanistan by the Taliban, or the positions taken by the Moslem countries on issues related to the feminist movement. However, generally speaking, the complexities of the situation within which these fundamentalists operate and within which women's rights are discussed are not well reported to the Japanese public.

Another important reality that drew the attention of Japanese public opinion relates to the direct contact with Moslem visitors in different parts of Japan, especially the Moslems from Turkestan who sought political asylum and settled in Japan during the Japanese intervention in Siberia following the Russian Revolution. There are other things as well, such as the mosque built by Moslems in Tokyo, which was the first of its kind in Japan. The main thing, however, is the migration waves from different parts of the Moslem World, mainly from Iran and South Asia. At first, the Moslem refugees were not numerous enough to create a clear image of the Moslems, but the recent inflow of migrant labors in the 1980s and 1990s resulted in the forming of some negative images in the eyes of conservative Japanese. This is not only because some of those workers came to be involved in criminal activities such as telephone card forgery or drug trafficking, but also because there prevailed a distorted image idea that the Moslem workers were religiously handicapped when it came to competing with Japanese workers in the workplace. The fact that they stopped working in order to pray was difficult for the Japanese managers, for whom hard work for the company was the only religious activity, to understand. One could say that the exposure to Moslem workers did not improve the lack of interest on the part of the Japanese towards Moslems and the Middle East.

However, the presence of the Moslem workers led to a realization that the Middle East as well as South Asia are not far away places with no direct links to Japan. There is even a large park close to the major shrine in the center of Tokyo where one could find signs in Persian indicating that the park closes at 8:00 p.m., the reason being that several hundreds of Iranian workers used to gather there to meet friends and exchange information. However insignificant this appears, it shows that those workers are now a part of the Japanese society and Japanese background. The problem is to make the Japanese fabric realize what this means in terms of human contact. Unfortunately, there are very few examples of contacts between the Japanese and the Moslem World, although they are bound to increase in a world where inter-dependence increases day after day. The question is how to make increased contact a basis for friendship and cooperation and not to fall victim to the racist

anti-Moslem attitude that is frequently found in the West.

Here it should be pointed out that there exists a gap between the perceptual incongruity towards the region and actual concern regarding what is happening here. In recent years, Japan has become politically more and more visible in the region. Thus, in the last decade or so people have become used to the idea of Japan as a visible, if not active, political player in the region. Foreign policy is a complicated process in most countries, but the Japanese Constitution makes things even more difficult.

Today, very few Japanese are interested for example in Bosnia and Kosovo or Rwanda, although a few years ago, certain people in Tokyo took them very seriously. The Middle East is different. It is a part of the world that many Japanese take seriously for many different reasons in spite of the lack of familiarity and affinities I have already described. It is also a region where several different agencies make policy: for example, the Prime Minister's Office followed by the Foreign Ministry Office and the Ministry of International Trade and Industry known as MITI, etc. The Federation of Economic Organizations is also implicated in this. Of course, Japan is not the United States and therefore does not have to bother about the Pentagon, the CIA, the media, American Jews, American Arabs, etc. Yet, there are Japanese with an interest in war, peace, human rights, the global threat, the defense budget, the price of oil, the price of the yen, the price of the dollar, etc.

There are two basic components that have constantly played a major role in Japan's policy towards the Middle East. To put it bluntly, there is the American factor on the one hand and the oil factor on the other. When the international conditions were rigidly set by the Cold War structure, Japan was so heavily dependent on the Pax-Americana that people believed it was only natural for Japan to either take its lead unquestioningly from the United States or remain as inconspicuous as possible. In a way, the Japanese had no urge to change the existing framework in the Middle East or anywhere in the world for that matter, being content to merely follow American policy. In this sense, Japan was far more passive than the allies of the United States in Western Europe and it did not even try to lay the ground-

work that was necessary in order to establish itself in the region. What happens in the Middle East has a way of affecting America and what affects Americans has a way of affecting other people, including the Japanese, and it is for this reason that the American factor came to represent a predominant political element of the Japanese attitude towards the Middle East.

Securing a stable energy inflow is a necessity of the utmost priority for Japan. This energy factor formulated the dominant economic element of the Japanese approach to the Middle East and up to a certain point in the history, the two factors mentioned above meant the same thing. The world oil market was controlled by major oil companies, which are predominantly American. Japan preferred the cheap oil provided by them rather than to invest in overseas or exploration ventures. There were, of course, exceptions like the case of the Arabian Oil Company, which was established in the late 1950s to produce crude oil in the neutral zone between Kuwait and Saudi Arabia. Japan's oil was perceived as being supplied by the Americans or Euro-American companies to be more precise and not by the Middle East itself. Therefore, Japan did not have to formulate its own stance with regard to the region. Washington expresses its demands and Tokyo complies - the same old pattern repeated itself over and again - and historically this was a reason for Japan to stay away from the Middle East.

What changed all this in a rather complicated way were the two wars in the region, mainly the October War (or Yom Kippur War) of 1973 and the Gulf War of 1991. The October War brought about the oil shock, which resulted in Japan having to face the oil embargo by the producing countries of the Arab World and becoming more than a little aware of its strategic vulnerability. One can argue that at this point Japan started to formulate more conscious policies towards the Middle East as the direct result of the American failure to assure the Japanese share. In fact, the shock led to the most rapid major diplomatic partnering between Japan and the United States since the establishment of their alliance relationship. For the first time, circumstances forced Japan to deal strictly on its own with a significant portion of the developing world, i.e., the Arab bloc. In other words, this was the beginning of Japanese awareness concerning the fact that it cannot distance itself from world politics

such as the Arab-Israeli conflict and the Palestinian problem.

One can easily see that the Japanese interests here were already very complicated. Japan favored national independence for both Jews and Arabs. On the other hand, it wanted to maintain its strong ties with its single partner, the United States, which found it particularly easy to identify with Israel, not only because it is a democracy, but also because it is pioneer country, a country of immigrants. On the other hand, Japan's support for the American policy in the region had never been checked and Japan wanted to assure the flow of Middle Eastern oil for its own economy. The net result of this complication was the policy of the economic high profile combined with the political low profile in the region. Japan learned the lesson and was determined to become a major business player in the region, having realized that it could no longer be taken for granted that oil was something that could be obtained anytime from anywhere and that Japan has to deal with the reality and be more sensitive to the demands of the Middle East and the oil producing countries. Furthermore, the Middle East came to be a large promising market as well as a supplier of energy, so Japan had to decide what to do in order to become economically visible in the region. To find favor with the Arabs, Japan resorted to some sneakiness; official development assistance to Middle Eastern countries rocketed in the years that followed: from US\$10.6 million in 1970 to US\$89.2 million in 1975 and then to US\$339.8 million by 1978. Japan also gave *de facto* recognition to the Palestine Liberation Organization (PLO), which opened offices in Tokyo in 1976, and in 1981, Mr. Yasser Arafat visited Tokyo for the first time. Japan's policy was to consider the maintenance of a balance so as not to hurt the American position nor cause offense. Obviously, Japan attached enormous importance to ensuring that America remained its principal export market and alliance partner. Thus, Japanese policy has gone in some very different directions. In short, the more economically active it has become in the region, the more effort it has made to maintain a low political profile.

With the outbreak of the Gulf Crisis and the wars of 1990 and 1991, the landscape changed again. The Americans probably did the right thing when the Iraqis invaded Kuwait nine years ago -

I was in Iraq before the Crisis and I can therefore say, based on personal experience and reliable information, that Iraq at the time was home to one of the most ruthless regimes on earth and probably is much more worse by now. It was a real danger to its neighbors, and the invasion of Kuwait was a clear act of aggression and was likely to lead to more aggression that could have resulted in a direct confrontation with Israel and possibly non-conventional warfare in the region. I, like many other people, would be happier were an Iraqi opposition to get rid of the current regime, but there are real dilemmas because the concomitant sanctions against Iraq require international support and domestic consensus. Having said that, the mandate was to get Iraq out of Kuwait and make sure it stops threatening its neighbors, not to dismantle the country or overthrow the government. In other words, there is a line between any use of force as a sanction and forceful imposition of the will of one state. It is not easy to distinguish one from the other when it comes to a real situation such as Anglo-American bombing of Iraq, but at the very least, one should be aware that the line exists.

Despite contributing a total of US\$11 billion for logistical support for the coalition forces and an additional US\$2 billion in aid to the neighboring states and being one of the first countries to voluntarily decide to impose general economic sanctions against Iraq, Japan ended up being accused of doing too little too late. The government of Kuwait even failed to put the name of Japan on the list of the nations to which it feels obliged. This was indeed the trauma for Japanese policy-makers that eventually resulted in change. Such a lack of recognition was put down to Japan's traditional low profile policy in the region and it was decided that perhaps the conventional wisdom of keeping our heads down did not pay.

However, this disappointment was followed by a real opportunity for Japan to emerge politically as a visible player in the region. The Americans succeeded in persuading Israel, the Palestinians and other Arab states to come to Madrid in the late autumn of 1991. The same Americans came to ask the Japanese to take part in this Madrid formula and they responded in an uncharacteristic way. Since they had to pay a good part of the bill for the Gulf War, why not get the thanks and respect they deserved? Moreover, why should

their financial contribution not be reflected by playing a more responsible role?

The traumatic frustration on the one hand and the modest ambition on the other are two sides of the same coin. Japan became the gavel holder of the Environment Working Groups as well as co-organizer of the working groups on regional economic development, water resources and the refugee problem in the multilateral talks of the Madrid formula. Japan is also a member of the steering committee that supervises the working groups and it takes part in all five.

When Japan paid US\$200 million to the Palestinians over two years following the signing of the Israeli-PLO Declaration of Principles (DoP) in September 1993, it did so in a dignified manner to satisfy its ego and be recognized as one of the agents promoting peace in the Middle East. The fact that Japan is no longer regarded as a bystander *vis-à-vis* the dispute is in itself an achievement, and of course, if the peace process results in success, a sizeable financial burden will be lifted from its shoulders. Nevertheless, Japanese policy-makers still face a puzzle, namely, how to achieve a balance in dealing with two basic aspects of Japan's Middle East policy which have the potential to constantly clash with each other - the American factor and the oil factor.

The Oslo process has in a way absolved the Arabs of responsibility, essentially in the case of the Palestinian problem. The decision of the PLO not only to conclude a separate understanding with Israel, but also to do so as a result of a secret process designed to exclude other interested Arab parties led to its breaking away from the Arab countries - for the first time it became legitimate to strike a separate deal with Israel. Consequently, Jordan was able to conclude its bilateral peace agreement with Israel in October 1994. Apart from Egypt, which has full diplomatic relations with Israel, the process of normalization of relations was at the time underway between Israel on the one hand and Morocco, Tunisia, Oman, Qatar, Bahrain and the UAE on the other. Negotiations between Israel and Syria and Israel and Lebanon were at the time under the direct auspices of the Americans. When this American venture to bring about a peaceful and stable Middle East is realized, Japan will not have to worry about its supply of energy because it can deal with the countries in the region one

by one, separating one issue from another just as it does with its neighboring Asian countries or members of the European Union (EU). In other words, Japan will be relieved of its longstanding obsession with the idea that in the Middle East everything is so politicized and interlocked that anything could lead to another oil crisis.

Today, even with all the setbacks in the peace process, it is too difficult for Japan to imagine a return to deep-seated enmity between the Arabs as a block and the State of Israel. Even Syria seems to have no interest in the resumption of military confrontation with Israel and in the long run, Syria's Turkish interests seem to be best protected by maintaining good working ties with the Americans. Therefore, the Japanese think that the course towards peace in the region has already been fixed and that although it is occasionally blocked by a stupid leader of a certain country, it shall never be successfully torpedoed because it has crossed the point of no return.

Thus, as far as the Middle East Peace Process is concerned, the Japanese feel quite comfortable to find themselves in the same boat as the Americans. This does not mean of course that they are happy with the situation as it is now. The Palestinian dimension of the problem is still outstanding and Israel is apparently unable to decide what precisely it is willing to offer to the longsuffering Palestinians. The collapse of the Oslo process would represent a shameless squandering of the best opportunity to date to end the Arab-Israeli problem. The end of the current process would, of course, affect both Lebanon and Jordan, which would destabilize the whole regional game, particularly in Jordan with its large Palestinian population, a young king who has just acceded to the throne and its vulnerable economy. Certainly, Jordan will be the key to containing the regional threat of a decline in the fortunes of the Israeli-Palestinian track of the peace process.

Japan is determined to demonstrate its resolution to promote and consolidate the ongoing peace process, being aware that the success of the process will serve its own interests. However, there are still many problems, including that posed by Iraq. Iran, meanwhile, has been accused of seeking to disrupt the American-sponsored peace process, it has been criticized for insisting that Jerusalem must be Moslem, and the Americans have labeled Iran a prime sponsor of interna-

tional state terrorism and accused it of seeking to develop weapons of mass destruction as well as conventional weaponry. The Japanese are aware of those accusations, and agree, in most cases, with the Americans, yet they tend to differ on what should be done concerning Iran. Washington has imposed economic sanctions on Iran, but these are only partly responsible for Iran's current economic difficulties, which are due mainly to the Iranian bureaucratic mismanagement and the depressed global price of oil. Japan, together with the European Union (EU) has rejected the American-imposed economic embargo on Iran and remains sharply critical of what it regards as a congressional effort to extend the sovereignty of the United States.

Moreover, Japan needs to plan its own long-term energy security policy with particular emphasis on Iran as it currently depends for more than 60 percent of the total energy consumption upon oil, 80 percent of which comes from the Persian Gulf. In addition, many of the Japanese companies have become multinationals and moved their production bases all over the region. It is time for Japan to face the fact that the American and Japanese strategies each have their own interests with regards to Iran or the Persian Gulf. Admittedly, American policy towards Iran seems to have been changing, although any US-Iranian dialogue is still in its early stages and in spite of the fact that informal means of communication have been established between the two governments, each is waiting for concrete action by the other. At least both countries are trying to explore the possibilities for a new relationship.

The impact of the firing of a new long-range missile by North Korea late last summer caused everyone to panic. Iran's suspected combat effort to acquire those missiles provided a pathway for the argument that there is a secret axis involving Iran, North Korea and possibly Pakistan, and Japan has realized that assistance to Iran might indirectly help it and its allies to gain the technologies that will eventually threaten Japan's own security. Therefore, in this respect, Japan comes closer to the American position. Nevertheless, it seems unlikely that the potential collision of interests between Japan and the United States will emerge for some time to come, but it is important to bear in mind that differences exist.

Be that as it may, everyone will agree that the Middle East is dangerous and is likely to pose an increasingly dangerous threat to others. Second, some external power is required in the region and this inevitably means the United States, at least for the time being, whether we like it or not. Third, America is determined not to do it alone in the Middle East. As late as the 1970s, America could still afford to dish out billions of dollars for peace between Israel and Egypt, and in 1990, America was willing to deploy half a million troops in the Gulf, but a replay of those past scenarios is rather unlikely. Fourth, and related to this, the Americans need more than ever before reliable and responsible allies to work with in the region. In the case of Japan, one must be aware of the distance between what it can actually do and what people expect it to do, but at least it is moving forward by showing its willingness and determination.



## *Japanese Policy in the Middle East*

### *With a Focus on Japan's New Approach Toward the Region*

Raquel Shaoul<sup>1</sup>

#### *Introduction*

Japanese foreign policy towards the Middle East<sup>2</sup> shows a slow but incremental change over the years, with the most significant political shift following the Desert Storm Operation of 1991. Although change of policy is usually related to new events or circumstances, the new Japanese approach towards the Middle East should be regarded as a continuation of several facts within the new internal and external political frameworks. The continued Japanese dependency on the Middle East for its oil crude imports and the extreme interdependence between its market and those of the Middle East, combined with certain new internal (changes in Japanese politics) and external (structural systemic changes) circumstances led to a 'new approach' in Japanese foreign policy. This new approach to the Middle East, including Israel, is manifested mainly in Japan's participation in the peace process as a co-organizer. In spite of this high political profile, which is now higher than at any time in the past, the Middle East is still relegated to secondary importance within Japanese foreign policy. However, one cannot dismiss or underestimate the real changes that are taking place.

#### *New Japanese Political Approach*

Three principal elements are responsible for Japan's new political approach and attitude towards the region: Japanese oil and commercial interests in the region, domestic changes in Japan, and the new international situation following the end of the Cold War.

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<sup>2</sup> Under the Official Development Assistance, Japan's Ministry of Foreign Affairs defines the Middle East as a region that extends from the Pamirs in the east to the Atlantic Ocean in the west, and from Turkey in the north to Sudan in the south, comprising of the following 21 countries: Afghanistan, Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Libya, Lebanon, Morocco, Oman, Qatar, Tunisia, Turkey, Saudi Arabia, Sudan, Syria, the UAE and Yemen. Gaimusho (The Ministry of Foreign Affairs), *Japan's Official Development Assistance*, 1995, pp. 331-352.

#### *1. Oil and Commercial Interests*

Since the end of World War II, Japanese dependency on crude oil as its main energy source has been enormous. In 1973, the year of the first oil crisis, crude oil and petroleum products accounted for 77.4 percent of the total energy consumption. In 1990, they represented over half the energy needs, i.e., 58.3 percent, a figure that is expected to drop to 47.7 percent by 2010.<sup>3</sup> In spite of the gradual decline since the 1970s, crude oil accounts for a large portion of the total energy consumption in Japan. In addition, Japan is totally dependent upon foreign sources for its oil needs; currently it imports 99 percent of its oil.<sup>4</sup> In 1995, the Middle East accounted for about 78.6 percent of its total oil imports, thereby underlining the region's vital importance to Japan.

The emergence of regional and international circumstances in the early 1980s, such as structural changes in the international oil market, the fall and near collapse of oil prices since 1986, economic difficulties within major oil producing countries, and Japanese reduced oil vulnerability, created a new more balanced mutual dependency relationship between Japan and the oil-producing countries in the region. Although Japan's dependency upon Middle East oil has been declining for the last 15 years, ensuring a cheap and stable oil supply has remained one of the most important goals of Japanese foreign policy.

Likewise, Japanese exports to the Middle East, although not accounting for a significant segment of total Japanese exports, are still important with regard to reducing Japan's trade deficit with the area. Bilateral trade exports and imports for the fiscal year 1982 between Japan, Saudi Arabia and the United Arab Emirates (UAE), each one respectively, emphasizes this argument<sup>5</sup>.

<sup>3</sup> Advisory Committee for Energy and Ministry of Trade and Industry estimates. *Sogo Enerugi Chosakai - The Comprehensive Energy Investigation Committee*, Chukan Hokoku Soron (a general interim report), June 1990.

<sup>4</sup> Masukawa Shigehiko, *Supply and Demand for Energy in Japan*. Tokyo: International Society for Educational Information, 1982.

<sup>5</sup> Exports to Saudi Arabia account for US\$6,621 million in comparison to US\$20,528 Japanese imports, and to the UAE, US\$1,493 million in comparison to US\$7,983.

Although 1982 is regarded as one of the high trade deficit years of 1973-1993, at the same time this year accounts for the highest share of exports to the Middle East (12.2 percent) in total Japanese exports in this period<sup>6</sup>. As such, political and economic stability in the Middle East continues to be crucial for Japan. From the beginning, Japan has been actively involved in the Middle East Peace Process by providing political as well as economic support, but one could question the timing of the changes. Part of the answer can be found in the emergence of new political changes inside Japan and systemic changes in the international arena.

## 2. Domestic Political Changes

One-party dominance ended in 1993 when the Liberal Democratic Party (LDP), which had ruled Japan since 1955, lost its hegemony. The demise of a strong central power led to political fluidity manifested by weak governments and the strengthening of the national bureaucracy. On the other hand, this situation facilitated the emergence of internal debates concerning the need for rewards and recognition of Japanese contributions to the Middle East. As Akifumi Ikeda argued, pressure was put on Japanese policy makers to "Seek a say for Japan's pay." "Since we had to pay a good part of the bill for the Gulf War, why did we not get the thanks and respect that we deserved?"<sup>7</sup> Such open debates became possible largely due to the absence of the traditional ideological opposition, the Japan Socialist Party (JSP). In June 1994, the Social Democratic Party (SDP), the new name for the JSP, joined the LDP Party and formed a new government in which Tomiichi Muruyama, President of the SDP served as prime minister. This new political alignment led to the SDP renouncing its erstwhile ideological premises. Muruyama's endorsement of a conservative *status quo* position raised the question concerning the distinctiveness of the left-wing socialists from the LDP. The SDP's acceptance of the Japan-US Security Treaty and its recognition of the formal status of the defense forces and their activities in international peace-keeping operations (PKO), led to Japanese political participation abroad. The dispatch of Self-Defense Forces (SDF) personnel to the Golan Heights and other trouble spots become easier

thanks to the demise of vociferous internal opposition.<sup>8</sup> Coalition changes in January 1996 have been almost irrelevant to this present situation because of the continuation of the same parties in the coalition. Likewise, the October 1996 general election renewed the LDP domination in the new Diet (parliament).<sup>9</sup>

## 3. The International Arena

The end of the Cold War and the disintegration of the Soviet Union helped alleviate the traditional Japanese dilemma regards the Middle East. As Michael Yoshitsu argued,<sup>10</sup> in the past, Japan had to choose between the need to accommodate the political demands of key oil-producing countries in the Middle East in order to secure energy requirements or to follow American policy in the Middle East. In most cases, those two positions were contradictory. The timing of the Middle East Peace Process, which began within a new systemic order, enabled Japan to commit itself politically in the region without paying a high price. In other words, without risking its bilateral relations with the United States, Japan is able to secure its oil supplies from the region. Japan's willingness to adopt an independent political stand in the region is free of potential recriminations on the part of the parties involved. As Yohei Kono, Deputy Prime Minister and Minister for Foreign Affairs remarked in January 1995:

"The end of the Cold War has enabled Japan to expand its foreign policy options. No longer will Japan make foreign policy decisions based merely on its identity as a 'member of the West'. To make the right decisions on foreign policy issues, Japan needs to firmly establish values and principles in assessing its own national interest. Such values and principles need to be cultivated by the Japanese themselves."<sup>11</sup>

The end of the Cold War created a whole range of new political opportunities, mainly with regard to regional balances of power. There no longer

<sup>6</sup> *Fiscal Statistics of Japan*. Tokyo, 1994, p.74, 76.

<sup>7</sup> Akifumi Ikeda, "Seeking a Say for Her Pay", in: *Middle East Dialogue*, November 1994, p. 5.

<sup>8</sup> Since the International Peace Cooperation Law was enacted in 1992, Japan has dispatched SDF to Cambodia, Mozambique, Zaire and recently to the Golan Heights.

<sup>9</sup> See the reelection of Ryutaro Hashimoto as a Prime Minister for a second consecutive term on 7 November 1996. Hashimoto also serves as the President of the LDP, the largest party in the National Diet.

<sup>10</sup> Michael Yoshitsu, *Caught in the Middle East: Japan's Diplomacy in Transition*. Lexington, Mass: Lexington Books, 1984.

<sup>11</sup> Deputy Prime Minister and Minister for Foreign Affairs Yohei Kono, "A Path for the Future of Japan's Foreign Policy." *Gaiko Forum*, Sekai-no Ugoki-sha, January 1995.

being a superpower struggle, which in the past inevitably led to local countries playing a zero-sum-game of aligning with the United States or the Soviet Union, not only the United States, a temporary exclusive superpower, but different regional powers such as China and Japan had to readjust their policies.

Asia as a sub-system is not an exception to this emerging political realignment. Regional competition and rivalry between China and Japan for leadership status in Asia is leading Japan to seek international recognition. This can be seen by the loud Japanese demand that it be allowed to become a permanent member of the United Nations Security Council. In the words of Kono:

“Japan should become a permanent member of the United Nations Security Council, in order to solidify global cooperation as a major pillar of Japan’s foreign policy. The United Nations Security Council is the only organization that can make decisions with binding force. Further, in the maintenance of international order, it is not the overwhelming military might of some countries that is playing a major role, but concerted international action towards such destabilizing factors. Therefore, it is inappropriate that a country like Japan, which is playing a prominent role in such international cooperation, is not permanently engaged in the United Nations Security Council.”<sup>12</sup>

In this context, Japan’s participation in the Middle East Peace Process is an extremely effective tool for accomplishing this goal. Prime Minister Muruyama’s visit to the region in September 1995 was seen, in some Japanese quarters, as a tour to gain the approval or support for the Japanese bid for a Security Council position. The question remains to what extent could the competition between Japan and China for a leadership role affect Japanese political attitudes towards the Middle East in general and towards Israel in particular?

### *Japan and the Middle East*

Since the late 1980s, Japan has followed ‘a new approach’<sup>13</sup> towards the region and its relations,

<sup>12</sup>Ibid. On 21 October 1996, Japan was elected as a non-permanent member of the UN Security Council at the 51<sup>st</sup> UN General Assembly. As a result, beginning 1 January 1997, Japan served as a non-permanent member of the Security Council for a two-year term.

<sup>13</sup> For discussions on the new approach see Yoshiji Nogami, “Japan’s Middle East Policy in Transition,” in: *Japan Review of International Affairs*, vol. 7, no. 2 (Spring 1993), pp. 103-

especially with the oil-rich Persian Gulf states, have moved from unilateral dependency to a more balanced mutual dependency relationship. A set of domestic and regional factors facilitated this shift. Inside Japan there was a significant improvement in its vulnerability with regard to oil imports. As William Hogan pointed out, oil imports have two distinct consequences: dependency and vulnerability. Since dependency is not the same as vulnerability, reduced dependence contributes to oil security only by reducing the cost of interruptions or by creating excess capacity that could reduce the effective size of a given interruption.<sup>14</sup>

Although Japan did not succeed in reducing its dependency on oil imports, it went a long way toward reducing its vulnerability. This reduced vulnerability became a reality because of internal legislation that permitted and ensured efficient oil consumption,<sup>15</sup> which included a mix of fiscal, regulatory and voluntary measures. The Petroleum Supply and Demand Adjustment Law, for example, enables the government to implement compulsory demand restraint measures such as consumption restrictions on large consumers, restrictions on gasoline supplies and the rationing and allocation of petroleum supplies. Second, the stockpiling of petroleum reserves improved Japan’s ability to cope with potential shortfalls. For instance, The Petroleum Stockholding Law (1978) obliges major oil refineries, oil marketers, oil importers and LPG importers to maintain emergency stocks equivalent to 70 days of the previous year’s domestic consumption. Meanwhile, The Petroleum Supply and Demand Adjustment Law gives the power to the government (Ministry of International Trade and Industry, MITI) to order stockdraw by companies in a declared emergency and/or under the International Energy Program triggered crisis.<sup>16</sup>

The battle to moderate oil prices and competition between consumers during scarcity situations, real or fabricated, become easier in the presence of stockpiles. Stockpiling strategy is seen not just

113; and Kunio Katakura, “Japan and the Middle East,” in: *Energy Policy*, vol. 20, no.11 (Nov. 1992), pp.1032-1036.

<sup>14</sup>William Hogan, “Import Management and Oil Emergencies”, in: David Deese and Joseph Nye (eds.), *Energy and Security*. Cambridge: 1981, p. 282.

<sup>15</sup> See for example, Petroleum Supply and Demand Adjustment Law of 1973; petroleum tax was imposed from 1 June 1978.

<sup>16</sup> IEA, *Oil Supply Security: The Emergency Response Potential of IEA Countries*. Paris: OECD/IEA, 1995, p. 242.



as a solution for crisis situations but rather as a deterrence measure to signal to the oil producing countries that political blackmailing of the consumers by creating artificial scarcity will be very costly for all the parties involved. During the 1991 Gulf War, the IEA-coordinated Energy Contingency Plan showed its ability to respond to a potential oil crisis. This was possible partly because the IEA members, including Japan, lowered stockholding obligations for compulsory stocks held by companies by four days of consumption, to meet the IEA commitment.<sup>17</sup> This sort of action was intended to glut oil markets in case of crisis and sub-crisis situations to avoid price rises, even in the absence of an increase in demand.

In addition, since the early 1980s there has been a continuous decrease in the share of oil in total Japanese energy consumption. This is related partly to the development of new alternative energy sources such as nuclear, natural gas liquids (NGL), geothermal energy etc. This relative change can be seen in Table 1.

**TABLE 1: Oil and Nuclear Energy Consumption in Japan**

Year	1973	1990	2000	Change (%) 1973-1990	Change (%) 1973-2000
Oil	77.4	58.3	52.9	-24.6	-31.6
Nuclear Energy	0.6	9.4	12.3	1,566	2,050

Source: Advisory Committee for Energy and Ministry of Trade and Industry estimates.

When comparing the share of oil and nuclear energy in the total energy consumption, it is essential to underscore two trends. One, there is an adverse correlation between the consumption of oil and nuclear energy. While there is a continuous decrease in the former, the latter is increasing considerably. Second, there is an impressive shift towards nuclear energy consumption, which by 2000 is expected to grow more than 20 times in comparison to 1973, while the share of oil is expected to fall by a third.

Furthermore, the OPEC (Organization of Petroleum Exporting Countries) and oil producing Persian Gulf states are also undergoing radical changes. Close to 70 percent of Japanese crude oil imports come from the six Gulf Cooperation Council (GCC) countries, namely, Bahrain, Ku-

wait, Oman, Qatar, Saudi Arabia and the UAE.<sup>18</sup> However, since the late 1980s two distinct factors have limited this Japanese dependency: one, the drastic decline in oil prices since the beginning of the 1980s and the petrodollar bubble and explosion brought profound financial difficulties to the Gulf countries, leading to high budget deficits; and two, the oil producing countries are highly dependent on exports as their primary source of revenue.<sup>19</sup> The Arab oil producing countries 'cannot drink their own oil' and hence they are very interested in sustaining a high rate of oil exports to consumer countries, especially to countries such as Japan, which need huge quantities of oil over undetermined periods of time. As Elihayu Kanovsky pointed out, "There has, indeed, been an oil shock since 1982, but for the oil-exporting countries, not the oil importers."<sup>20</sup> Beginning from the early 1980s,

"sellers do not have the power to raise prices because they 'need' more money; and prices are determined by total supply and demand forces. Even a monopolist has limitations with respect to price setting, and OPEC is not a monopoly."<sup>21</sup>

These two developments led to a more balanced relationship between Japan and the GCC countries than the one that had existed in the past. They also enabled Japan to re-

orient its policy towards Israel and the peace process without exposing itself to any significant political risk or cost.

<sup>18</sup>Japanese oil imports from the Middle East accounted for 70.4 percent of total oil imports in 1982, a situation that continued until 1990 when the share began growing (to 72.7 percent in 1991 and a peak of 78.6 percent in 1995). Petroleum Association of Japan, *Sekiyu Shiryo Geppo (Monthly Oil Bulletin)*, 1996.

<sup>19</sup>See oil export share in total Saudi Arabia and Kuwait exports income for the fiscal year 1994: Saudi Arabia 89.1 percent, Kuwait 93.6 percent. *Economic Intelligence Unit*, 1995 (Saudi Arabia and Kuwait Country Reports).

<sup>20</sup>Elihayu Kanovsky, *OPEC Ascendant? Another Case of Crying Wolf*, Policy Paper no. 20, Washington Institute for Near East Studies, 1990, p. 5.

<sup>21</sup>Elihayu Kanovsky, *The Economic Consequences of the Persian Gulf War: Accelerating OPEC's Demise*, Policy Paper no. 30, Washington Institute for Near East Studies, 1992, p. 95.

<sup>17</sup>Ibid. p. 234.

### Japan and Israel

The Japanese-Israeli relations can be classified according to four stages.<sup>22</sup> The first stage (1952-1972) was largely symbolic. Though there were diplomatic relations between the two, with Israel opening a mission in Tokyo in 1952,<sup>23</sup> the relationship was devoid of any real political content and there was a lack of cultural understanding between the countries. The second stage (1973-1979) largely coincided with the first and second oil shocks, which raised a whole range of new negative attitudes in Japan towards Israel. Japan's interest in Middle East oil imports, together with Arab political demands, compelled it to comply with the Arab economic boycott against Israel, even though there was no Japanese commitment to breaking diplomatic relations with Israel as demanded by the Arabs. During the third phase that extended until the Kuwait crisis, there were certain improvements in the relationship between the two, with Japan remaining very committed to the Arab boycott. According to Willy Stern "Compliance with the boycott is not only a result of Japan's dependence on oil."<sup>24</sup> He argued that the Arab markets for Japanese consumer goods and the Japanese unfamiliarity with the actual operations of the boycott also contributed to Japan's compliance with the Arab boycott against Israel. In spite of the boycotts, the trade volume between Japan and Israel increased by more than 50 percent in 1986, which was partly due to the Japanese perception of the importance of the Jewish lobby in the United States and its possible importance for Japanese relations with Washington. Moreover, Japan became more aware of the Arab inability to punish it for its non-compliance with boycott demands.

The fourth and current stage began with the 1991 Desert Storm Operation. Two principal factors

are seen to be responsible for Japan's new approach towards Israel. One, the Iraqi invasion of Kuwait enabled Tokyo to recognize the disunity inside the Arab World. The Desert Storm Operation was unique in the sense that the Arab countries went to war between themselves under the political and strategic leadership of an external power, namely the United States. Japan began to realize that the Arab-Israeli conflict is not the only factor that endangers stability in the Middle East. In addition, the Israeli behavior during and after the crisis and its avoidance of any military response against Iraq during the war were highly appreciated by Japanese policy makers and by the Japanese media.<sup>25</sup> Instead of "a country of desert and war"<sup>26</sup> for a while Israel became 'a victim' of the inter-Arab conflict. Second, the Middle East Peace Process, which began in the autumn of 1991 or a few months after Desert Storm, entered a new phase with the signing in September 1993 of the Oslo Accord between Israel and the Palestine Liberation Organization (PLO). This mutual recognition enabled Japan to involve itself in the peace process and contributed to the intensification of political contacts between Israel and Japan.

Additional economic and political factors led to an improvement in the relations between the two countries. Growing high-level political contacts<sup>27</sup> opened a new bilateral dialogue that included Japan's declaration that it would rethink its policy concerning the Arab boycott (agreed during Prime Minister Yitzhak Rabin's visit in December 1994), the signing of a scientific cooperation agreement and the opening of the Israeli Stock market to Japanese investment. In April 1994, both countries signed an agreement on double taxation, and they are currently negotiating a civil aviation agreement. The security cooperation between the two countries took a significant turn as a result of Japan's participation in the peace process and its dispatch of SDF personnel to the Golan Heights in February 1996 within the framework of the United Nations Disengagement Observer Force (UNDOF).

<sup>22</sup>For discussions on Japanese-Israeli relations see Ben-Ami Shillony, "Japan and Israel: The Relation That Withstood Pressures," in: *Middle East Review*, vol. 18, no.2 (Winter 1985), pp.17-24; Liat Collins, "Improving Japanese-Israeli Relations," in: *The Israel Economist*, 43 (November 1987), pp.10-13; Willy Stern, "Japan: A Willing Participant in the Arab Boycott of Israel," in: *Middle East Review*, vol. 21, no.1 (Fall 1988), pp.47-53; Kurt W. Radtke, "Japan-Israel Relations in the Eighties," in: *Asian Survey*, vol. 18 no. 5 (May 1988), pp. 527-540; Akifumi Ikeda, "Japan's Relation with Israel," in: *Japan in the Contemporary Middle East*, Kaoru Sugihara and J.A. Allan (eds.), London/New York: SOAS Center of Near and Middle Eastern Studies, 1993, pp.155-169; and Ruth Shuster, "Japan: Rising Sun over Israel," in: *Link*, vol.6, no. 51 (October 1996), pp.40-50.

<sup>23</sup>Delegations were raised to the level of embassies in 1963.

<sup>24</sup>Stern, *Japan*, p.47.

<sup>25</sup> Since the 1991 Gulf War, the Japanese state television (NHK) office has been opened in Jerusalem, reporting constantly about Israeli and Middle East affairs to Japan.

<sup>26</sup> Ami-Shillony, "Japan and Israel", op.cit., p. 21.

<sup>27</sup> These include the visits of Foreign Minister Nakayama (June 1991), Minister Kakizawa (Spring 1994), and Prime Minister Muruyama (September 1995). Israeli visitors include Foreign Minister Peres (December 1992) and Prime Minister Rabin (December 1994).

In spite of the prolonged recession in Japan, the economic dialogue between the countries has improved since 1993.<sup>28</sup> Japanese participation in the peace process coincided with the willingness of international companies to participate in the execution of different projects for the development of regional infrastructure. The National Agency for Science and Technology of MITI delegation to Israel, the *Keidanren* (Japan Federation of Economic Organizations) delegation's visit in April 1993 as well as the political exchanges between deputy Foreign Minister of MITI Hatakeyama and Foreign Minister Shimon Peres in November 1992 strengthened growing economic contacts. However, 1995 can be regarded as a turning point in the commercial and economic relations between the two.

Israeli exports to Japan burgeoned in 1995, having increased by 33 percent over 1994 and reached US\$1.2 billion; most of the increase was in the hi-tech sector. The export to Japan of machinery and tools increased by an impressive 42 percent amounting to US\$172 million and electronic equipment practically doubled to US\$67 million.<sup>29</sup>

Prime Minister Muruyama's visit to Israel in September 1995<sup>30</sup> led to an agreement to open a representative office of JETRO (Japan External Trade Organization) in Israel by 1997. This move is seen by the Israeli economic sector as having the potential to encourage large Japanese trading companies to enter the Israeli market. The visit of Foreign Minister David Levy to Tokyo in late February 1997 marked the first official contact between the two countries since the establishment of the new Israeli government, led by Benyamin Netanyahu.

To what extent could a deadlock in the peace process affect the recent achievements in Japanese-Israeli relations? Japanese disappointments regarding recent political developments were explicit as well as public. On 26 February 1997, Ken Shimanouchi, spokesman of the Foreign Ministry, outlined the Japanese reaction to the deadlock in the peace process as follows:

"The decision made by the Government of Israel regarding the construction of housing at Har Homa in eastern Jerusalem is regrettable. The Government of Japan has repeatedly expressed its position concerning the need for both parties to the peace process to refrain from any action, such as the expansion of settlements, which would prejudice the outcome of the final status negotiations. Japan will continue to take part in the international effort to underpin the peace process by taking every opportunity to talk with the parties concerned, and by extending assistance to the Palestinians in the West Bank and Gaza Strip."<sup>31</sup>

Against this background, the Japanese Government decided to send Deputy Foreign Minister Shunji Yanai to the region to play a role, albeit modest, in helping to put the process back on track. During his visit to Israel on 3 April he reiterated Japanese concern over "the current difficulties and rising tensions between the Government of Israel and the Palestinian Authority in the wake of the Israeli decision to go ahead with the Har Homa Housing project."<sup>32</sup>

Although some disagreements have arisen recently between the two countries, such as those pertaining to the civil aviation agreement, they can hardly be linked to the deadlock in the peace process. This does not mean, however, that potential damage to bilateral relations is no longer present. On the contrary, there are several potential sources of instability. There is still profound reluctance within the Japanese economic community to invest in the Israeli market because of the possible renewal of the Arab boycott. This psychological fear was strengthened as a result of the political changes in Israel following the defeat of the Labor Party in June 1996. The continuing deterioration of the peace process is leading to the resurgence of Arab rhetorical claims against Israel. For example, in April 1997, the Arab Foreign Ministers' Meeting in Cairo recommended that the Arab states should cease normalizing relations with Israel and restore the economic boycott.<sup>33</sup> Such developments could

<sup>28</sup> In 1993 Israeli exports to Japan grew by 15 percent.

<sup>29</sup> Shuster, "Japan", op.cit., p.43.

<sup>30</sup> Muruyama's visit (12-19 September 1995) included the Kingdom of Saudi Arabia, the Arab Republic of Egypt, the Syrian Arab Republic, the State of Israel and the Gaza Strip. It was the first time that Japan's Prime Minister visited Israel and Syria.

<sup>31</sup> Statement of the Spokesman of the Ministry of Foreign Affairs on the decision of the Government of Israel to construct housing in East Jerusalem, Tokyo, 27 February 1997.

<sup>32</sup> Press conference of the Press Secretary, Minister of Foreign Affairs Press, MOFA, 4 April 1997.

<sup>33</sup> Liat Collins and Hillel Kuttler, "Arab FMs Agree to Renew Boycott," in: *The Jerusalem Post*, 1 April 1997. See also, John Lancaster, "Arab League Votes to Renew Business Boycott Against Israel," in: *The Washington Post*, 1 April 1997, p. A11.

have harmful effects upon the newly emerging Israeli-Japanese economic cooperation.

In this regard it is important to note that as in the past, the Japanese Government still suggests that although the MITI has a powerful influence over Japanese companies, the latter are able to make independent decisions concerning whether they are willing to take risks when dealing with Israel. In other words, it is up to the companies concerned to respond to Arab boycott demands. This formal position is rather questionable because trade relations, including private ones, between Japan and any foreign country, need tacit government approval. A key example is the JETRO, a nonprofit government-related organization that promotes trade and economic relations between Japan and other nations. Since JETRO had not received formal blessing until 1997, there was no direct private Japanese investment in Israel. However potential damage due to the deadlock in the peace process will not appear as Japanese compliance with a 'new' Arab boycott of Israel but rather as a reluctance on the part of Japanese private companies to invest in Israel, a country that is still regarded as belonging to a region that lacks political and economic stability. As a result, the future development of Japanese-Israeli relations largely depends on the Japanese evaluation of the importance of its continued participation in the peace process as a means of promoting the Japanese international position and its recognition that cooperative relations with Israel could enhance its bilateral relations with the United States.

### *Japanese Policy Towards the Peace Process*

An important if not crucial expression of the new Japanese attitude towards the Middle East can be found in Japan's participation in the peace process.<sup>34</sup> Since its inauguration in Madrid in October 1991, Japan has been trying to consolidate peace in the Middle East. Its efforts include providing support to the parties involved, as well as playing a major role - along with the United States, the European Union (EU) and other countries - in creating the frameworks for regional cooperation on the multilateral track of the Middle East Peace Process and active participation in regional economic summits and

other venues. Japanese policy towards the peace process is guided by five basic principles:

#### *1. Political support to the process:*

Japan urges the leaders of Middle East countries to negotiate, recognizing that the most important element of the peace process is bilateral negotiations among the parties involved. Constant declarations by the Foreign Ministry on the need to maintain and advance the negotiations between the different parties are an integral part of the Japanese position towards the Middle East.

#### *2. Japanese participation in the multilateral negotiations and working groups:*

Since the Moscow conference in January 1992, Japan has been taking part in four of the five working groups as a co-organizer country (the exception being the working group that deals with regional security). Besides its active contribution in the field of environment and tourism, Japan presides over the Environment Working Group (EWG) and serves as deputy in the Regional Economic Development Working Group (REDWG), Water Resources Working Group (WRWG) and the Refugee Working Group. As pointed out by Prime Minister Tomiichi Muruyama during his Middle East visit,

"In multilateral negotiations, which complement bilateral negotiations, Japan wishes to play a part in building that foundation. In the light of this thinking, Japan proposed to draft an environmental code of conduct, which was adopted as 'The Bahrain Environmental Code of Conduct for the Middle East' at the Environmental Working Group meeting in Autumn 1994... Furthermore, in the Tourism Workshop of the Working Group on Regional Economic Development, Japan intends to continue consultations with the regional parties with the view to establishing a regional tourism association, which has been considered in the workshop under the chairmanship of Japan."<sup>35</sup>

Some specific examples of Japan's contribution to the multilateral negotiations and working groups include:

- Upper Gulf of Aqaba Oil Spill Contingency Project (EWG)
- Project to combat desertification (EWG)

<sup>34</sup>Yasumasa Kuroda, *Japan in a New World Order: Contributing to the Arab-Israeli Peace Process*. New York: Nova Science Publishers, 1994.

<sup>35</sup>Remarks by Prime Minister Tomiichi Muruyama during his visit to the Middle East, 18 September 1995.

- Conference and symposium on the promotion of tourism in the Middle East (Tourism Workshop of REDWG)
- Support for the establishment of the Middle East Desalination Research Center (WRWG)

### 3. *Economic assistance to the Palestinian Authority (PA):*

Japan has been one of the largest financial contributors to the PA. In 1993, it announced that it was going to give a US\$200 million aid-package to the Palestinians during 1994-95.<sup>36</sup> In 1996, Japan was the second largest aid donor after the United States.<sup>37</sup> Foreign Ministry spokesman Ken Shimanouchi stated,

“The Government of Japan has decided to extend an emergency grant-in-aid totaling US\$11 million to the United Nations Development Program (UNDP) Japan-Palestinian Development Fund to assist the Palestinians who are now facing difficulties such as rising unemployment. The aid will be used to finance projects in the area of employment creation in Hebron, Bethlehem and Gaza. Japan’s cumulative aid to the Palestinians since 1993 now stands at US\$270 million.”<sup>38</sup>

Japan also accepted Palestinian trainees and helped them to develop administrative skills and human resources in fields such as environment and education while the Japanese joined the international monitors that oversaw the January 1996 Palestinian Council elections. Furthermore, at the ministerial conference for the support of the Palestinians held in the same month, Japan pledged more than US\$56 million by the end of March 1997.

### 4. *Economic assistance to the Arab parties in the Middle East Peace Process:*

Japan places a high priority on economic assistance to the Arab countries of the area (Egypt, Jordan, Syria and Lebanon) to underpin the Middle East Peace Process.

- *Egypt:* Egypt receives the greater part of the Japanese Official Development Assistance (ODA) in the Middle East, approximately US\$79 million in 1994. Technical coopera-

tion involved the Cairo University Pediatric Hospital and the building of a new bridge over the Suez Canal. Japan is Egypt’s principal donor, providing some US\$34 million grants in fiscal 1995.

- *Jordan:* Japan is Jordan’s principal donor and provided around US\$34 million in grants in 1995. In 1994, it granted US\$124 million as loans for the expansion program at the Aqaba thermal power plant and the Energy Sector Adjustment Program. It granted a US\$215 million loan to stabilize the Jordanian currency and another US\$106 million loan to implement the second stage of the Aqaba thermal power plant. Technical cooperation takes place in fields such as health, communications (like the reconstruction of the Allenby and Hussein bridges) and agriculture. Also implemented are third-country training programs for Palestinians in the electric power field.
- *Syria:* Japan is Syria’s main donor. It gave US\$23 million in grants during 1994 and provided a loan of approximately US\$471 million for the building of Az-Zara and Jander thermal power plants during 1995.
- *Lebanon:* In February 1995, Japan sent diplomats to its Beirut Embassy. A few months later it sent two teams, one to explore economic cooperation and another to survey loans, to Lebanon. It is interested in taking part in the international committee for the reconstruction of Lebanon.

Besides these bilateral arrangements, Japan was an active player in the Middle East and North Africa Economic Conferences held in Rabat (1994), Amman (1995) and Cairo (1996). It has also supported the establishment of the Bank for Economic Cooperation and Development in the Middle East and North Africa, which will encourage a flow of private funds into the region and be conducive to the support of peace in the region. The Cairo Economic Conference declared in November 1996 that the bank would start functioning by 1997.<sup>39</sup>

### 5. *Japanese participation in the UN peacekeeping, Golan Heights:*

In February 1996, Japan dispatched a ground Self-Defense Force and other personnel to the UNDOF stationed on the Golan Heights. Their

<sup>36</sup>Japan has so far provided a total of US\$184 million including US\$10 million for housing support for Palestinian police and US\$5 million for the Gaza Clean Up Project. By November 1996, some US\$252 million had been provided.

<sup>37</sup>Aid supply is given either in a bilateral way or through international organizations such as the UNDP and UNRWA.

<sup>38</sup> Press Conference by the Press Secretary, 21 March 1997.

<sup>39</sup>“Japan’s Support for the Middle East Peace,” The Ministry of Foreign Affairs of Japan.

mission is to provide secondary support for staff and transportation for UNDOF. The 43-member Japanese transport platoon is stationed at Camp Ziouani in Israel and Camp Faouar in Syria.

In order to understand Japanese participation in the peace process it is essential to stress some central issues. Do Japanese policy makers have a better understanding of the Middle East as a result of their involvement in the region? Will Japan's participation place it as a major external player in the Middle East? If there is a constant deadlock or even cessation of the peace process, could complete identification with it harm Japanese interests? It appears that answers to these questions are in the negative.

Despite Japan's new political attitude to the region, the past Japanese perception of being 'a latecomer'<sup>40</sup> to the region, which helped to explain its low political commitment in the region, is presently used to explain Japan's political limitations. However, instead of defining itself as a 'latecomer', Japan is now calling itself a 'newcomer'<sup>41</sup> to the Middle East. This 'newcomer' stand represents a two-fold message. One, being a newcomer, Japan still finds it very difficult to understand the cultural and political trends in the region such as schisms in the Arab World, Arab political culture, social and internal problems such as diverse ethnic groups within one political framework, the gap between wealthy Gulf countries and their lack of political stability, etc. At the same time, being a newcomer to the region makes it difficult for Middle East countries to appreciate the Japanese contribution to the region in comparison to other Western countries. For example, Japan claimed that Israel underestimates its contribution to the peace process and treats the Japanese as secondary to the American and European contributors.

One might therefore conclude that although it has used a 'carrot and stick' approach to promote its interests in the region, Japan feels that it is still regarded as a secondary influence in the Middle East. This is partly due to the profound psycho-

logical roots of its dependent relations with the region that has made it politically vulnerable for a long time. Japan finds it difficult to employ punitive measures because in its competition with China for international recognition, it is interested in being recognized as a prominent power by the Middle Eastern countries. This prevents it from taking any serious 'stick measures' to persuade the partners to accelerate the peace process. As such it is primarily concerned with the multi-lateral working groups while reminding itself that the success or failure of the whole process will depend upon the bilateral negotiations over which it has no influence.

### *China and Japan at the End of the Cold War*

The emergence of China as a superpower, as manifested by its nuclear capabilities, expanding navy, and its territorial assertions in the South China Sea,<sup>42</sup> is becoming a real political problem for Japan today. To the Chinese potential one can add further sources of regional instability, such as the situation in the Korean peninsula, the concentration of military forces, including nuclear arsenals, unresolved territorial disputes, potential regional conflicts and the proliferation of weapons of mass destruction in the region. In the words of Morihiro Hosokawa, former prime minister and Diet member belonging to the New Frontier Party:

"Until World War II, Japan's destiny was largely determined by our relations with China. In fact, the most serious issues Japan may confront in the future may well be those related to China. China, as our huge neighbor in the Pacific, will undoubtedly develop the industrial base and armaments commensurate with its large size and huge population. Over the past hundred years, China has had a history of difficult trials and tribulations. It is a history in which nationalistic impulses have not been entirely fulfilled. Hence I think it is necessary to pay sufficient attention to the latest desires of the Chinese State and the instability this introduces to Asia."<sup>43</sup>

<sup>40</sup> Japan as 'a latecomer' regards its relatively late encounter with the various Middle East countries as a result of the fact that it had no colonial, historical and cultural links with the region, in contrast to some European countries.

<sup>41</sup> Japan being 'a newcomer' to the Middle East refers to its political and cultural distance from the region due to the absence of a historical background in Middle East colonialism and its late entry in the region.

<sup>42</sup>The Spratly Islands, over which Vietnam and China have claims, are located in one of the most strategic waterways in the region. This route accounts for 70 percent of Japan's imports. Rival claims by Taiwan, the Philippines, Malaysia and Brunei over parts of the islands complicate the picture. There is also a dispute concerning the ownership of Diaoyutai Isles and Tokdo Islands between Japan and China.

<sup>43</sup>Morihiro Hosokawa, *Rebuilding the US-Japan Security Structure*, Seattle, Washington, 12 March 1996.

Analyzing Chinese and Japanese relations with the Middle East leads to several questions. To what extent could the present Sino-Japanese competition over political, economic or strategic leadership in Asia affect Japanese policy towards the Middle East? To what extent are the Chinese and Japanese interests towards the region diverse, competitive or complementary? In addition, what potential implications could the Middle East have on the Sino-Japanese balance of power and in what areas?

### *Chinese and Japanese Interests in the Middle East*

Both countries have a common interest in promoting political and economic stability in the Middle East, not only to protect the uninterrupted flow of oil, especially to Japan, but also to enable greater access to local economic markets. As pointed out by Zhongqing Tian,

“Since the adoption of her open door policy, China has taken steps towards attaining three economic objectives in the Middle East; to sell more of her products in the rich market of the Middle East; to export her surplus labor to the Gulf countries; and to attract as much investment as possible from the state and private sectors of Arab countries.”<sup>44</sup>

Although there are some common goals between Japan and China, there is no actual cooperation towards the realization of these objectives. This can partly be explained by their different political approach to the region. While Chinese influence is based primarily on strategic goods such as arms transfer and technology,<sup>45</sup> Japan seeks influence through trade and commercial interests and its role as a potential bridge between the region and the United States.<sup>46</sup>

In this sense, the establishment of diplomatic relations between China and Israel on 24 January 1992 could be seen partly as a result of Chinese

recognition of America's influence and position in the Middle East. Israel's first ambassador Zev Sufott recounts an interview of Foreign Minister Qian Qichen with the *People's Daily* in June 1991. Summarizing China's policies towards the Middle East, the minister said, “The most important thing is for the United States, which has a great influence on Israel, to play a greater role.”<sup>47</sup>

Sufott commented on this remark as follows:

“Qian's comments, carefully phrased as they were, could only indicate China's acceptance of the major American role and initiative in the Middle East Peace Process, her giving priority to peaceful solutions rather than the assertion of a role of her own in the process, and her acquiescence in the subordination of UN auspices to other frameworks.”<sup>48</sup>

### *Middle East and Sino-Japanese Balance of Power*

The Middle East is likely to affect the Sino-Japanese balance of power in three distinct arenas, namely strategic and military positions, rivalry for political leadership, and economic competition. Although the estimates of Sino-Israeli military transactions are often exaggerated,

“Israel's ability and willingness to provide compatible and advanced technology ... became an attractive proposition [for China]. Upgrading various weapons and systems supplied by the former Soviet Union and developing effective counter measures are the two important aspects of Israeli specialty.”<sup>49</sup>

One cannot underestimate the impact of the Sino-Israeli military cooperation on Japanese security calculations. This raises the question of possible Japanese rearmament to counter any threats from China. The existing international system with the United States as the sole dominant power has not proved its ability or willingness to protect Japan as it did during the Cold War years. The signing on 15 April 1996 of the US-Japanese Agreement Concerning Reciprocal Provision of Logistic Support, Supplies and Services between the SDF of Japan and the American armed forces did not improve the situation. Reviewing the evolving po-

<sup>44</sup>Zhongqing Tian, “China and the Middle East: Principles and Realities,” in: *Middle East Review*, vol. 18, no. 2 (Winter 1985), p. 13.

<sup>45</sup>For detailed discussions on Chinese arms trade see Gerald Segal and W.T. Tow (eds.), *Chinese Defense Policy*. London: Macmillan, 1984; and Anne Gilks and Gerald Segal, *China and the Arms Trade*. London: Croom Helm, 1985.

<sup>46</sup>In the late 1970s and early 1980s Japanese identification with the American political objectives in the region was seen by the Arabs as an impediment for Japanese interests in the region. The end of the Cold War and the peace process have given a new twist to this perception. Sharing a common political stand with Washington is beneficial to the Japanese drive to enhance its position in the region.

<sup>47</sup>Quoted in Zev Sufott, *A China Diary: Towards the Establishment of China-Israel Diplomatic Relations*. London: Frank Cass, 1997, p. 71.

<sup>48</sup>*Ibid.*, p. 71.

<sup>49</sup>P. R. Kumaraswamy, “The Military Dimensions of Israel-China Relations,” in *China Report* (New Delhi), vol. 31, no. 2 (April 1995), p. 246.

litical and security environment, it declared that the American President and Japanese Prime Minister agreed that a continued American military presence is essential for the preserving of peace and stability in the Asia-Pacific region. In respect to Okinawa, where American facilities and areas are highly concentrated, the Prime Minister and the President reconfirmed that they were determined to carry out steps to consolidate, realign and reduce them.<sup>50</sup>

The Chinese nuclear tests on the eve of the conclusion of the Comprehensive Test Ban Treaty (CTBT) have been criticized by Japan. In its view, this was more than a Chinese act of deterrence or a political/psychological tool. As Muruyama said in his policy speech to the 134<sup>th</sup> Session of the Diet on 29 September 1995,

"In response to the changes in the international situation in the post-Cold War era, we will also continue to vigorously review what defense capabilities are appropriate for the Self-Defense Forces from an overall perspective."<sup>51</sup>

Second, as Elhanan Harel, former chairman of the Israel-Japan Chamber of Commerce, remarked:

"The timing of the Middle East Peace Process proved perfect for Japan. The peace process coincided with Japan's desire to evolve from a 'mere' global economic power to a political one: the peace process provided a key to *koku-sai*, the internationalization of Japan."<sup>52</sup>

However, the real question is why does Japan suddenly feel that it might become a political and not just economic superpower? Part of the answer lies in the structural changes that the international system has been facing since the end of the Cold War. The absence of superpower rivalry implied a political vacuum in different regional spheres, including Asia. Thus the question

50 Japan-US Joint Declaration of 15 April 1996. Seventy-five percent of American military bases in Japan are concentrated in Okinawa, which places a great burden on the people of the small island. The long running controversy took a turn for the worse when three American service men were accused of raping a local teenager. The interim report of the Special Action Committee on Facilities and Areas in Okinawa (SACO) agreed between the two governments suggested some reduction of American forces in Okinawa. In a non-binding referendum held on 8 September 1996 the residents of the island overwhelmingly endorsed the call for a reduced American presence. Prime Minister Hashimoto offered a US\$50 million aid package in return for renewing the leases of the American bases.

<sup>51</sup> Tomiichi Muruyama, Policy Speech to the 134<sup>th</sup> Session of the Diet, September 29, 1995.

<sup>52</sup> Shuster, "Japan", op.cit., p. 40.

of who would fill this leadership vacuum in Asia is still open. This is likely to intensify the political competition between Japan and China in Asia and other parts of the world. The Sino-Japanese rivalry for leadership goes beyond Asia. The long delayed reorganization of the UN and the composition and size of the Security Council membership lead to the question concerning the Asian leadership role. To secure international recognition, political involvement in regional developments including the Middle East Peace Process becomes crucial for Japan. China in contrast was not part of the preparatory activities of the peace process. In the words of one Israeli diplomat, Beijing

"had not sought a major role of sponsorship of the Middle East talks. It had, in fact, given public blessing to the efforts of the sponsors to bring the parties to the dispute to the conference table."<sup>53</sup>

In addition, the competition for Asia's other fast growing economies and the globalization of trade makes it harder for Japan to maintain its edge. Over the last decade China has become an export powerhouse. See Table 2, as follows:

**TABLE 2: Value of Chinese and Japanese Exports to the OPEC countries**  
(in US\$ billion)

Year	Japan	Japan's exports growth	China	China's exports growth
1987-89	11.2	--	1.1	--
1990-92	16.5	47.3%	1.8	63.6%
1993	20.0	78.5%	2.8	154%

Source: *Handbook of International Trade and Development Statistics, 1994*. New York: United Nations, 1995, pp. 58-9.

Though facing a number of problems such as inflation, widening regional gaps and difficulties in State enterprises, China enjoyed a remarkable growth rate of over ten percent in 1995. This means that China's energy consumption will rise correspondingly. This could lead to a more bitter and complicated competition between China and Japan to secure energy supplies. In this regard it is interesting that Sino-Japanese energy competition could compel both countries 'to court the Middle East' for political, economic and strategic (at least China) considerations. As Kiyoshi Takahashi, advisor of Showa Shell Sekiyu K.K. Tokyo said:

<sup>53</sup> Sufott, *A China Diary*, op.cit., p.116.



"Currently the Asia-Pacific region occupies about 60 percent of the world population, 25 percent of world GNP and 30 percent of world oil demand. Now this region emerges as an engine of world economic growth and oil, one of the main fuels of the engine, presented a rapid growth for its demand... For the past three years from 1990 to 1993, the regional oil demand increased by three million barrels per day (b/d). Looking at the outlook until 2000 and 2010, oil demand in this region is expected to grow at a good rate."<sup>54</sup>

Crude oil regional production in Asia for 1994 was about seven million barrels per day (b/d), while 9.3 million b/d of crude and oil products were imported from other regions. Future crude production, for the ten future years, is expected to remain at 7.1-7.2 million b/d.<sup>55</sup> The regional demand for oil consumption would increase significantly without any corresponding improvement in the regional production. As a result, the Asian dependency on Middle East oil would grow significantly.

"According to a forecast by the East West Center, the import rate of crude oil and products from the Middle East to the Asia-Pacific was nine million b/d (for 1994), and is estimated to increase to 13.3 million b/d in 2000 and to 20.1 million b/d in 2010."<sup>56</sup>

At present, the Asia-Pacific meets its demands for crude oil and petroleum products primarily through imports from outside the region.

"In the medium term future covering three to five years ahead, there will be no substantial change in the product supply demand balance. However, in the long term, China and India will emerge as gigantic markets for petroleum and thus the intra-sub-regional trade flow will change accordingly."<sup>57</sup>

As a result, the coming decade - if buoyant economic growth continues in Asia, as seems likely - holds the potential for tensions between Asian powers as regional oil markets tighten while contenders for supplies grow more diverse and competitive. China, Japan, the Koreans, and most ASEAN members will be vigorously bidding for

imports in energy markets that until recently were much simpler and more relaxed.<sup>58</sup>

### Conclusions

There is no doubt that during the last years there have been some incremental changes in Japanese foreign policy pertaining to the Middle East, which have allowed for Japan's participation in the Peace Process. The question, of course, arises as to whether or not we have the methodological tools to understand the quality of this change. Although changes of attitude and performance can be detected, it seems that the present Japan's foreign policy in regard to the region is still deeply bound to its former foreign policy principles.

Japan's foreign policy toward the region as a coherent part of its general foreign policy is still viewed through an American prism, which is increasingly criticized. Inside Japan, there is disappointment because of the lack of recognition of Japanese political participation abroad, while externally, there is growing pressure on Japan to fulfill its international (economic) commitments.

Japanese involvement in the region still occurs only when there seems to be no potential danger as a result of Japan's political activities, and is still based mostly on its economic contribution. However, the continuation of a relative economic recession in Japan, together with the perceived political and economic instability of the Middle East, could prevent any significant change in Japanese direct investment in the region.

In addition, a significant part of Japan's political involvement in Middle East affairs can be attributed to the regional politics competition in Asia, especially with China, which threatens Japan's chances to win the potential energy supply competition with regard to Middle East oil. The fact that China - as well as Japan - is still very committed to the Palestinian cause will also have to be taken into account when revising the re-born Israeli-Japanese relations or the newly born Chinese-Israeli relationship.

<sup>54</sup> Kiyoshi Takahashi, *Emergence of the Asia-Pacific Regional Market and Japanese Refiner's Strategies*, presented at the Fourth Annual Petroleum and Gas Conference, Bahrain, 17 January 1996, p. 2.

<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> Ibid., pp. 4-5.

<sup>58</sup> Kent E. Calder, "Asia's Empty Tank," in: *Foreign Affairs*, vol. 75, no. 2 (April/March 1996), p.55.



## *Promotion of Private Investment in the Middle East - A Japanese Perspective*

Yoshiki Hatanaka<sup>1</sup>

I would like to explain the issue of private Japanese investment in the Middle East by extracting important points from an article titled "Japanese-Arab Economic Relations." The article was written by Professor Yasumasa Kuroda of Hawaii University and myself and published in *The Journal of Arab Affairs* in 1991.

There is a strong desire in the Arab countries to attract foreign direct investment in joint ventures. Particularly in the last decade, capital-rich countries in the Gulf region such as Saudi Arabia and Kuwait, whose economies are not so diversified, have started asking their oil-buying clients in the West to provide them with various technological know-how, not only at operational but also at managerial levels through small and medium-sized manufacturing joint ventures. Non-Arab countries in the Middle East are also seeking direct investment. Iran and Turkey, for example, two extremely large countries are regarded by Western businessmen as being substantial markets for many goods whose producers are trying extremely hard to attract capital and technology from the West. At the same time, many countries in the region have started privatizing their economies to varying degrees. Even Syria, whose economy is still based on the public sector, has started asking private investors to play a more positive role in its economy as part of a bid to attract foreign capital.

I know that Palestinians are equally interested in acquiring foreign technology, knowledge and expertise through cooperation with foreign businessmen and governments. I also know that it is necessary for the Palestinians to formulate an accurate idea of how Western countries regard the Middle East as a prospective area for investment. I sincerely hope that this seminar will contribute to the understanding of Palestinians regarding many aspects of Japan, including the way in which Japanese corporations decide how and where to invest their money.

### *Motives for Japanese Investment Abroad*

Total investment abroad by Japanese manufacturers at the end of 1997 had reached US\$187 billion, of which US\$163 billion had been recorded since the year 1986. The decision of companies to switch to producing their products abroad, at lower cost and avoiding a foreign currency risk, was the main reason for the sudden increase in overseas investment during the last ten years or so. Japanese companies had started facing price competition due to the rise of the yen from the middle of 1985, and Japanese investment abroad, particularly in Asia, began to increase in 1990. From then onwards, many Japanese companies, which by then were facing worldwide competition and the continued rising of the yen, became eager to transfer some of their production facilities to other countries in order to improve their profit base.

In looking at Japanese investment abroad region by region, one discovers that most of the investment involves North America (45 percent) and Asia (30 percent). In contrast, the percentage of Japanese investment in Europe is rather low, being 15 percent. The reasons for the relatively low level of investment in Europe are as follows: the absence of cost competitiveness in Europe, its geographical distance from Japan, and the small market size of the various European countries. The European Union (EU) as a whole, of course, promises to be a huge market, but only once it succeeds in establishing a single common market. It seems to me that Japanese companies, for the meantime anyway, consider it too early to prepare for investing in Europe.

It is known that until the mid-1980s, Japanese companies had still tried to manufacture most products domestically. It was the technological capabilities of certain Asian countries that encouraged Japanese companies to have some of their production facilities in Asia. Since then, many Japanese companies have built up complementary production networks with Asian countries and have created an extensive horizontal division of labor. During the early days of investment in Asian countries, this horizontal division

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of labor involved mainly low value-added items, but Japanese firms have gradually started to transfer the manufacturing of technology-intensive items as well. Japanese investment in Asia, however, still has features that differ from those of its investment in North America.

Firstly, the grade of commodities manufactured in North America by Japanese companies is almost the same as that of commodities produced in Japan. In the case of Asia, however, the initial transfer of manufacturing involved low-level technological products. Secondly, more than 90 percent of the products manufactured in North America by Japanese firms are usually sold locally, whereas nearly 20 percent of the products manufactured in Asia by Japanese companies are either imported to Japan or exported to other countries.

As for Japan's manufacturing investment in the Middle East region, the area accounts for just 1.1 percent (US\$2,049 million) of total direct investment overseas as of 31 December 1997.

According to the survey conducted among more than 12,000 companies in March 1995, the following five reasons are essential factors behind the decision of Japanese companies to invest abroad:

1. A desire to hold on to or expand the local market: 29 percent;
2. Lower costs (making the prices more competitive): 27 percent;
3. Joining their mother companies (in the case of subcontractor companies): ten percent;
4. A desire to hold on to or expand the market in third-party countries: ten percent;
5. To produce goods destined for the Japanese market: six percent.

#### ***Factors Affecting Japanese Investment Abroad***

Although, as previously stated, Arabs, Israelis, Iranians, Turks and others in the region have all expressed their eagerness to attract Japanese investment, the Middle East region has not received much attention from Japanese investors in the past. The Japanese are keenly aware of their dependence on the Middle East region for 82 percent of their oil supply, and they know that they must help the region to achieve political stability and regional peace. However, although the Government of Japan and various

Japanese organizations are aware of the need to strengthen ties with the Middle East, Japanese businessmen are still reluctant to invest in the region, although some have recently started to show some interest.

It could be said that the Government of Japan could play a more positive role in bringing private investors to the region. The Japanese economy may still be guided somewhat, but, it is free of government control and intervention. The government is in no position to instruct or direct private investment activities to what it sees as being vital to the national interest, and the fact is that Japanese investors go any place that appears safe and profitable.

Before dealing further with the question of why Japanese investment in the region is still low, one should consider why Japanese investment is high in the United States. One reason for this is the fact that more than 30 of the 50 states in the United States have offices in Japan to attract Japan's direct investment. Very few of the Arab countries have similar offices, and those that do exist were opened fairly recently.

Contrary to what some people believe, since the early 1970s, a number of Japanese companies have invested in Middle Eastern countries. One example is the Alexandria National Iron and Steel (ANSDK) plant in Egypt. ANSDK has consistently been increasing its production volume and is planning to expand the plant in the very near future. There are, of course, several other examples. Nevertheless, the overall level of Japanese investments in the Middle Eastern countries is still not very high. Let me try to examine the reason behind this.

When Japanese businessmen think of investing abroad, they always take into consideration three main factors: the size of the market, available manpower (both quality and quantity), and the social cultural, climatic, traditional and other institutional aspects of the host country. This is why the majority decide against investing in the Middle East, especially in the Mashreq region. I believe that understanding the problems and obstacles facing the Japanese companies that are already doing business in the Middle East will contribute to the Palestinians' understanding of the Japanese way of thinking and will help them to develop a better approach toward the Japanese business society. I have discussed this topic with

many Japanese businessmen over the last 20 years and the following is what I have discovered from our many conversations.

The first thing that has to be clarified is that a very simple economic theory does exist. This theory states that there are no borders facing private capital, and that it goes to any place in the world where profit can be expected; in other words, it moves according to its efficiency. We should always bear in mind the words 'capital efficiency' and 'capital rationality', as they are the principle and common language of private businesses all over the world, especially in the era of the 'global' village.

The second thing is that there are many business and investment opportunities in the world today. Other areas in the world such as the United States, Europe, transforming countries, South-east Asia, and so on are also equipped with good investment circumstances, climates, and systems and are welcoming foreign investment. Thus, a strong motive for Japanese businessmen to invest in the Middle East is still lacking.

The third thing is the difference in the nature of European, American and Japanese enterprises. Generally speaking, the Japanese are very cautious and sometimes take a very long time to reach final decisions. On the other hand, however, they do precisely what they decide to do and are famous for keeping their promises. People should keep this in mind when considering the Japanese business attitude towards the Middle East region. I would note here that the Japanese became more careful in investing in the Middle East after their experience with the Iran-Japanese large-scale petrochemical project, which finally fell through and caused heavy losses among the Japanese parties involved.

It seems to me that the Europeans and the Americans are bolder and do not take a long time to reach final decisions, but this is something that could apply to both the advancing and withdrawing phases. It is difficult to determine which nature is 'better', the Japanese or the European/American, as it is all related to the differences in cultures, societies, histories and so on.

With regard to the general conditions that must exist before anyone will invest capital abroad, the first one is, of course, political stability in the prospective investment country. Other important

conditions are mainly related to the policies of the host country. Policies considered beneficial by investors usually include the free flow of capital, various kinds of tax incentives such as a sufficient period of tax holiday, low-cost utilities, such as electricity, water and so on, and the existence of infrastructures, work forces, and a social climate that is favorable to foreigners and foreign business activities.

In addition to these, the host country should have an office that is totally responsible for foreign investment at the relevant ministry. It is also desirable for those countries to have offices that specialize in giving necessary information regarding investment. In addition, it is vital that the countries have information offices abroad to appeal to potential investors, bearing in mind the current level of competition to draw investment. Any answers or services provided by these offices to foreign potential investors in addition to foreigners who are already investing in the region concerned must be provided in a rapid and accurate manner, thereby facilitating the making of final decisions regarding new investment or an increase in the current level of investment and helping to attract new investors.

The world, especially since the collapse of the former Soviet Union, has been moving toward privatization, deregulation and a market-oriented economy. 'Globalization' is now a commonly referred to term, even in those countries that were closed to the outside world during the Cold War period. If the Arab World wants to be competitive in attracting foreign investment, then it needs to encourage entrepreneurs and give more freedom to the private sector throughout the region.

Other problems that Japanese businessmen, economists, and researchers specialized in the Middle East encounter is the lack of accurate, consistent and recent statistical data on the national economy upon which they can base investment decisions or consider expanding current activities. It is much easier for them to convince their superiors in Japan to go ahead with a new project or a new expansion plan when they can strengthen their compelling opinions with reliable agreeable data.

What has been mentioned above thus far is applicable to all or at least the majority of foreign investors from all over the world. There are, however, some unique factors involved in attracting Japanese investors.

First, Japan is a remote country physically and culturally in relation to the advanced nations of the West, which are usually far more familiar with Americans and Europeans than they are with the Japanese. If Japanese investment activities are to increase and succeed, the Japanese and the people of this region must get to know each other better.

Second, the Japanese are much slower than many people imagine in making decisions, which, I admit, can be extremely annoying. However, as I mentioned before, once the Japanese make decisions, they are far more likely than many other businessmen and governments to carry out what they planned and are also far more likely to place a high priority on long-term rather than short-term interests. Japanese management style is often different from Western management style, as it calls, amongst other things, for the development of communication channels from the bottom to the top, encouraging workers to take part in making management decisions to improve their efficiency.

Third, unfortunately, most Japanese investors in the Middle East are large corporations, which makes it difficult to find good counterparts or joint-venture partners in the region. Smaller industries in Japan do not have the need to expand abroad nor did they have, until very recently, enough expertise to invest abroad. Of course, things have started to change, even in Japan, during the last few years and these small industries today are more positive in considering investment abroad. Their target region, however, is still limited mainly to nearby Asian countries or North America. I hope that the Palestinians will take into account these factors regarding the Japanese and start to take a new approach in communicating with them concerning future investment relations between the two.

### *Possible Cooperation Between the Two Parties*

A cooperative relationship between Gaza, the West Bank and Japan in such fields as trade promotion, technical collaboration and investment promotion in the near future might be possible. However, to ensure that further progress is made, the parties concerned on both sides much work together towards the alleviation and elimination of potential problems.

In the final analysis, the basis of the economic relationship between the two consists of the decisions arrived at on a commercial basis by private-sector companies. The role of the government, governmental institutions, and organizations should be limited to providing support and, in some cases, the necessary environment. There are three basic forms of support worthy of mention, which are as follows:

#### *1. Publicity support, for example, concerning information on the business environment:*

Unfortunately, there is still insufficient concrete information on Gaza and the West Bank in Japan to ensure that Japanese businessmen and companies gain a proper understanding of facts concerning the business environment in general. If the Palestinians wish to publicize information on specific projects widely among Japanese companies, they should consider using trade journals specialized in business promotion.

#### *2. Support for the personal interchange:*

The future promotion of interchange between the private sectors will be the most essential prerequisite for the promotion of specific projects in the future. In my opinion, small-scale missions limited to specific industrial categories should be sent to Japan, thereby enabling projects to be widely publicized.

#### *3. Support for holding of seminars etc.:*

In addition to the dissemination of business information and information on specific projects, another effective publicity route is the holding of seminars and exhibitions. The seminars, in addition to covering the general situation in the West Bank and Gaza Strip, must concentrate on specific themes. Holding exhibitions in conjunction with seminars would be, I believe, an effective approach.



## *Factors of Economic Success in Japan and Asia - Implications for the West Bank and Gaza Strip*

*Yoshiki Hatanaka*<sup>1</sup>

During the 50 years that followed World War II, the international community witnessed the dramatic development of the Japanese economy. Japan's increasing economic success during this period, especially that of its manufacturing industry, has led the world to pay more attention to its industrial policies.

Japan's industrial competitiveness in the world market has sometimes caused many observers in the West to view Japan's industrial policies with caution and to criticize them due to a lack of accurate knowledge. However, many developing countries, including the newly industrialized economies (NIEs), the ASEAN members, China and most recently, Middle Eastern countries have displayed a strong interest in learning lessons from Japan's experience after World War II. Unfortunately, many of them seem incapable of understanding precisely what Japan's industrial policies are, which is why we should summarize the definition and role of industrial policies and the factors of Japanese economic success.

### *Definition and Role of Industrial Policy*

#### *Definition*

Industrial policies are government policies that are directly aimed at inducing growth and structural change in the industrial sector. Of course, the purpose, content and measures used have differed not only from country to country but even in different periods within the same country. As a result, it is difficult to define and generalize what an industrial policy entails. For the sake of convenience, the definition of industrial policy often embraces two distinct components: industrial policy and industrial organization policy. The first is targeted towards the redistribution of factors of production such as capital and labor among different industries to tailor the whole national industry into a desired form. These conditions usually tend to create and maintain business competition in order to guarantee maximum efficiency in corporate activities.

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#### *Role*

Some experts believe that reliance on the free-market mechanism based on free competition allows for the optimal allocation of available resources. The free-market mechanism is often hampered by the presence of oligopolistic business and particularly by market failures, as in the case of public goods.

Since World War II, the relationship between industrial policy and the free market mechanism in Japan has been interpreted by the Industrial Structure Committee - an advisory body to the Ministry of International Trade and Industry (MITI) - as a necessary economic policy for the effective realization of competitive functions deriving the most benefit from the principles of free market and international divisions of labor and making up for the constraints inherent in these principles. The different industrial policies undertaken by Japan during the post-World War II period have always been based on harnessing the Japanese economy's strong disposition towards competition.

### *Factors of Japanese Economic Success*

It is true that industrial policies in Japan have made a considerable contribution to the rapid expansion of the Japanese economy over the last 50 years. At the same time, we should bear in mind that Japan's economic success was not brought about only by an industrial policy. Rather, it was an ideal mix of external and indigenous factors that led to the country's economic development.

#### *External factors*

The external environment surrounding post-World War II Japan was very beneficial for the following reasons:

- A free-trade system was secured under the IMF-GATT regime.
- National resources and energy abroad were abundant, inexpensive and readily available due to relatively stable international relations.

- Advanced technological innovations were easily obtained from around the world.
- The initial period of economic expansion in Japan coincided with a period of world economic growth.

### *Indigenous factors*

Post-World War II Japan also enjoyed favorable domestic factors - the root of economic success. These factors included the following:

- Japanese society was characterized by high levels of education and a high degree of social mobility, and the domestic economy retained its inherent disposition to competition.
- Japan achieved high labor performance through diligent Japanese workers, life-long employment together with seniority-based wages, independent labor unions based on individual companies that are usually cooperative with employers, and other so-called 'Japanese-style employment practices'.
- Japanese managers were able to plan long-term investment for profits because companies were relatively free from dividend payment requirement, mainly as a result of the weak control exerted by shareholders.

### *Cooperation Between the Public and Private Sectors: The Case of Japan*

The public and private sectors play important roles in industrial policy-making and implementation in Japan, which can be partially attributed to the level of coordination and cooperation.

### *Inter-government coordination*

On the government side, the special policy divisions responsible for direct supervision of industries have played a central role in this regard. In the MITI, for example, there are divisions in charge of iron and steel, automobiles, machinery and textiles. They usually collect and analyze domestic and overseas information on industries in order to formulate and implement policies, which involves formulating laws to promote specific industries (including tax and financial incentives), revising tariff rates, trade and investment regulations, approving the introduction of facilities, technologies and foreign investments, as well as formulating future visions for the industries.

The policies proposed by them are coordinated by related divisions and passed on to departments and ministries according to their needs. Inside the ministry, coordination is performed with the 'horizontal' bureaus of International Trade Policy, Industrial Policy, Industrial Location and Environmental Protection. At the same time, policies related to tariffs and financing are coordinated with concerned departments in the Ministry of Finance. Sometimes coordination is also required with the legal department of the Cabinet - the Fair Trade (Anti-Monopoly) Commission.

### *Industry associations*

The government divisions in charge of the various industries also maintain close ties with industry associations, which allows them to obtain the information and ideas needed to formulate policies and prevent differences of opinion between the government and private sectors. Industry associations differ in size, purpose and activities. National-level industry associations work in exchanging, coordinating and compiling the opinions of member companies. They also have the important task of maintaining ties with related government divisions for the exchange of information and opinions on the industries. The presidents and chairpersons of industry associations are in most cases selected from top managers, who serve as industrial representatives during their terms. In the larger industry associations, retired officials with experience in related government departments often serve as executive directors or secretary-generals.

As representatives of industry interests, industry associations also engage in various activities to support government policies. The major industry associations have considerable political influence due to their political contributions, and for this reason alone they are effective in bringing policy proposals to fruition. The relationship between the government and industry associations goes through different phases, with the government becoming more of an intermediary once the industries have developed to a certain extent.

### *Council system*

The council system is often used when making decisions regarding important industrial policies. Councils are established as advisory organs to the ministries and consist of industry leaders in

addition to academics and journalists. They solicit opinions regarding draft policies and coordinate the interests of the connected parties. They are also effective in collecting, exchanging and distributing industry information.

Economically, enhanced coordination among firms has improved the flow of information between businesses and the government. Politically, this has helped to establish a commitment to shared growth and reduced rent seeking. It has also performed an important monitoring function to assess the performance of the industry, economy and administration.

#### *Coordinating between export policy and industrial policy (MITI)*

In order to bring trade and production together and to blend the domestic economy and its structures in a way that works to the benefit of commerce, strong coordination between industrial policy and international trade policy is essential. Close coordination between the different ministries and bureaus ensures there is a broad perspective on domestic and international economic policies and careful attention to individual industries.

#### *Role of specialized banks*

Specialized development banks such as the Japan Development Bank (JDB) and the Export Import Bank of Japan were created to complement the commercial banks. These banks usually control project selection and monitoring independently, albeit within broad government guidelines.

The JDB began operations in May 1951 as the government's principal organization in supplying equipment funds to industry, taking over the role previously played by the disbanded Reconversion Finance Bank (RFB). Prior to the establishment of the JDB, the Export Import Bank of Japan was founded in February 1950 and designed to complement the trade and overseas investment financing activities of commercial banks. The major differences between the JDB and the RFB are as follows:

- The JDB specialized in the supply of equipment funds, while the RFB was empowered to provide both equipment and operating funds.
- The JDB extended only long-term financing with payment terms of one year or more,

whereas the RFB handled short-term loans for periods of as little as six months in addition to longer-term credit.

- The JDB was prohibited from competing with commercial banks, whereas the RFB was not.
- The JDB, which was prohibited from issuing bonds, depended for its working funds entirely on equity funds from the government, whereas the RFB was able to collect working funds through equity increases and bond issuance.

#### *Factors Surrounding the West Bank and Gaza Strip*

At this point, it would be useful to compare the external and indigenous factors of the West Bank and Gaza Strip economies with those of Japan after World War II.

#### *External factors*

Most of the external conditions surrounding the West Bank and Gaza Strip today are beneficial, based on the assumption that the peace process will develop further to the point of full peace in the region. Under these circumstances, it will become easier for countries in the region to allocate more resources for economic development.

- Peace will reverse capital flight, which has occurred steadily in the region over the past three decades or so, as well as speed up capital inflows including aid money from the donor countries, particularly those in the West.
- Large-scale projects - starting with infrastructure, such as the building and rehabilitating of new highways, railways, seaports, and airports etc. - may be carried out through the region, which will surely have positive economic effects on the Middle Eastern countries.
- Peace could also bring about severe economic competition among the parties in the region in the future, and it might thus have a negative impact on those economies that are still relying on centrally planned measures, limited in size and endowed with an insufficient natural resource base.
- Whether we like it or not, the free-trade system will be secured under the newly implemented World Trade Organization (WTO) regime. However, one must remember that becoming a member of the WTO regime will have both positive and negative effects on any economies, which include new regulations and restrictions on some goods and industries. In addition, gen-



erally speaking, protectionism will be all but banned with some exceptions.

- The new phenomenon of regionalism at the international level, as exemplified by NAFTA, the European Union (EU) and APEC, could be another disadvantageous factor, not only for Palestinians, but also for all Middle Eastern countries, because it may lead to mutual beneficial economic conditions among the parties involved in each agreement. In this regard, a new partnership among Mediterranean countries - 15 from the EU and 12 from the eastern and southern coasts - which started in Barcelona in November 1995 would be important for the West Bank and Gaza Strip in expanding markets abroad.

#### *Indigenous factors*

- The West Bank and Gaza Strip have a relatively high level of labor. However, workers are usually not accustomed to the most advanced technology and so on.
- Usually the introduction of modern methods of manufacturing and management has lagged behind.
- There are talented businessmen throughout the area with a strong desire to build up their own industries.
- There are Palestinians abroad who have succeeded in many fields of business and who have a wealth of experience and a huge amount of capital.

#### *Decisive factor: the character and development state of the economy*

There are some patterns of an industrial strategy that parties should adopt according to the character and development stage of their economy. Hence, one should examine the type of industrial strategy that would best suit the West Bank and Gaza Strip, taking into account the external and indigenous factors surrounding them as well as the economic preconditions mentioned above. As explained previously these would be:

- A window of opportunity is emerging due to the continuation of the peace process, even though competition may soon become stronger.
- A new partnership is developing among Mediterranean nations.
- The West Bank and Gaza are located at the heart of the East Mediterranean, the Mashreq, the Gulf and Egypt.

- The indigenous market is limited to Palestinians.
- A high-level labor force is available, but usually its members are not equipped with the technologies and skills needed to promote sales in the market abroad.
- There are sites for tourism, marine sports and summer resorts that might absorb foreigners, although most of them are at the developing stage.

Judging from the circumstances surrounding the West Bank and Gaza and the current conditions, the best option would be to start from developing export-oriented light industries, targeting the East Mediterranean region and the Gulf area.

#### *Lesson from the 'Four Dragons'*

There are countries that have achieved a breakthrough in spite of the limited size of their domestic markets, such as the 'Four Dragons' of East Asia: Hong Kong, Taiwan, Korea and Singapore. The experiences of these countries might be useful for the West Bank and Gaza Strip, although some of them are currently facing economic problems. In the countries mentioned, export industries have been the engine of economic development, i.e., export-oriented industrial strategies have been adopted from the earliest stages of industrialization. In addition, the introduction of 'managerial resources' was actively promoted (e.g., capital, technology, manpower, corporate know-how, etc.) at a time when these were almost non-available domestically. What we have learned from the Asian economic crisis is that we must establish a sound financial policy based on an appropriate financial system and must carefully check the amount and composition of capital from abroad.

Moreover, these countries have consistently adopted a clear strategy of developing 'export processing zones' as a concrete policy measure to bring foreign companies to their country. This policy has been promoted together with complementary preferential measures, such as tax exemptions. Lastly, a policy to improve relatively weak infrastructural conditions in the export processing zones was also implemented.

Many countries in the world today - particularly those whose domestic markets have a limited size - have adopted a policy of promoting export processing zones, with varying degrees of success.

Usually those zones that materialized to transform and root 'managerial resources' into domestic industries have become winners. Most probably, the lesson to be extracted is the following: to secure the success of a strategy of 'export processing zones' as in Asia, measures transforming 'managerial resources' firmly into domestic industries are very much needed.

One of the options for the Palestinians in the future might be to establish industrial zones and free zones, to be connected by the latest modern traffic networks and to serve as an export and transit base in the region. In this regard, the experience of Asia's 'Four Dragons' could serve as a mirror for the West Bank and Gaza Strip.

For the success of the drive towards industrial development to materialize, Palestinian industries must overcome the two most critical constraints to efficient growth, namely foreign market access and access to technological advances and innovations. Two policy options are envisioned to serve this end: first, the development of indigenous skills and talent to penetrate export markets and to catch up on the technological level; and second, attracting foreign direct investment from transnational corporations that have the most developed marketing networks and own frontier technologies.

Furthermore, competitive industrial development in the Middle East is heavily contingent on the harmonization of investment policies among countries of the region, and the ability to fully liberalize market entry except for security-related and other clearly identified sectors according to a set of commonly agreed criteria. Efforts to promote joint venture projects should be given priority on the policy agenda of Arab governments.

Alongside policies for trade and investment liberalization, there is considerable scope for Arab cooperation in industrial development, given the existence of a number of specialized institutions at the regional level. Trade barriers currently imposed by each Arab country on all manufactured products from other Arab countries and the rest of the world should be gradually eliminated.

Arab countries should also together design a plan that develops a number of key industries for which growth prospects and dynamic comparative advantage are expected and in which coop-

eration would raise the rate of return. Among the industries and sub-sectors that deserve attention and study are the following: capital goods, downstream petrochemical products, special metals, microelectronics and software. In each of these fields, a number of specific lines can be identified as potential niches.

It would also be most effective to support joint research and development programs with industrial applications in areas of potential dynamic comparative advantage such as renewable energy, desalinization, biotechnology, building materials, and irrigation equipment. This would complement and support the growth of related industry sectors and provide opportunities for new investments.

To conclude, industrial cooperation among the parties in the Mashreq region should be given a new impetus under a liberalized environment in which competition and export-oriented foreign direct investment becomes an essential engine of growth. The focus of attention should be the provision of an enabling institutional environment and attractive investment climate at the national level, so as to maximize on flows of foreign direct investment, which bring much needed capital, technology and export markets. At the regional level, institutional and government support for joint activities would promote long-term gains for all countries of the region.

The following recommendations might be useful in considering the future economic policy of the West Bank and Gaza Strip. They are extracted from the expert meetings on 'Industrial Strategies and Policies and Managerial and Entrepreneurial Skills under Conditions of Global and Regional Change'. Although the seminar was held in Manama, Bahrain, over three years ago (20-23 November 1995), I believe most of the recommendations adopted at the meetings are still applicable to the countries in the region today.

### *Strategic Objectives*

Building a competitive industrial sector is now a critical component of a vital strategy of survival and success in this rapidly changing 'New World' economic environment. Among the most critical factors are the following:

- emphasizing an outward-oriented industrialized strategy;

- raising the levels of domestic savings and investment;
- pursuing industrial and technological strengthening;
- accelerating human capital accumulation;
- building and maintaining an efficient production-linked infrastructure;
- providing a sound and accommodating macro-economic environment;
- seeking a more equitable distribution of income and wealth;
- fostering broader economic cooperation among the Arabs.

The need for this innovative and outward-looking industrial policy is a part of a broader economic renewal agenda to overcome severe structural problems resulting from weak and limited industrial bases and the heavy dependence on oil and oil rents. This effort is not about setting out elaborate blueprints for the economy, nor is it about establishing an array of expensive government programs. Rather, it is about providing a framework that enables all segments of society to work together as partners. Grand schemes and large governmental programs did not bear the fruits they were supposed to in the Arab region. While some of these grand schemes and blueprints may have been acceptable at the earlier stages of Arab development, they are no longer workable. Development is too complex a process for one single social group to be entrusted with it.

### *Recommendations*

This effort is required at both national and regional levels as well as at both the macro and enterprise levels. The following recommendations are suggested for the macro and enterprise levels:

#### *The macro level*

The Arabs need to move away from the *rentier* economies of the past to productive economies based on high value added and sustainable production. This will increasingly depend on building innovation capabilities, entrepreneurial and technical skills and on a full-fledged and deliberate entry into the new knowledge-based economy. To move into high value added and sustainable production the Arab governments need to develop - with assistance from international agencies and institutions - and implement new

economic and industrial strategies and policies that will take the following into consideration:

1. Developing industrial linkages and networks within each state and among Arab states, beginning with sub-regional cooperation among smaller groupings of states while aiming at building larger and broader regional cooperation;
2. Fostering greater cooperation with wider European and Mediterranean economic regions and other regions in order to safeguard the Arab interest, give voice to Arab concerns and participate in shaping policy initiatives that affect the region;
3. Defining a new role for governments to act in several critical areas that can have the greatest impact on strengthening Arab competitive fundamentals:
  - putting strong emphasis on investing in people, training and knowledge;
  - emphasizing the development of sectoral strategies, strategic groups of companies, community initiatives and industrial entrepreneurship;
  - reforming the civil service while stressing efficiency, merit, accountability, transparency and integrity;
  - changing the balance between the public sector and civil society by balancing and empowering the institutions that mediate between the State and the citizens and strengthening democratic institutions and practices;
  - building State capacity to design and implement industrial policies while emphasizing the need to build a strong political commitment to development and the political will to override vested interest groups;
  - building State capacity for flexibility in changing the nature, scope and extent of State intervention in response to new issues and challenges that emerge at different stages of industrialization;
  - diverting the savings from military expenditure to enhance economic and industrial development and to increase expenditure on the critical sectors of health, poverty eradication and education;
4. Stimulating high value added production in the Arab region. It is essential to move away from heavy dependence on oil and oil-related production and our dependency on natural

- resources. This is needed to diversify economic structures, markets, technological capabilities and skills and circumvent rampant 'rentierism' in the Arab economy, while emphasizing dynamic comparative advantage;
5. Developing a stronger presence in the new economy (knowledge and information-based production);
  6. Considering the establishment and/or enhancement of investment development offices to coordinate and exchange information, to reduce harmful and injurious competition among the Arabs for the same investors, and to derive more accommodating conditions for the benefit of the local economies, including but not restricted to home-based manufacturing and product mandates;
  7. Creating network and linkages among firms to overcome size difficulties. Networks of linked firms, industries and institutions should be encouraged to create competitive advantage that cannot be created by individual firms acting alone. There is a need to foster cooperative relationships, which help to create competitive advantage by stimulating technology transfer, continuous innovation and skill development and training. There is also the need to build on the synergies generated through cooperation among firms and institutions to spark new cooperative initiatives among Arab states, create vested interest in regional cooperation and cement the integration of markets and energies;
  8. Considering the development of sector partnership funds and other sectoral initiatives among regional private sectors, institutions and firms, to increase their networks and increase the intensity of their contacts. More public investment in network infrastructure will be needed, particularly in the informational infrastructure;
  9. Small and micro enterprises face particular difficulties in building international capabilities because of a lack of information, expertise and investment funds. The long-term success and growth of these firms frequently depends on taking advantage of international trade, investment and technology acquisition opportunities. Arab governments should consider all efforts needed to strengthen SMEs including the establishment and/or enhancement of trade promotion offices in key international locations or use their embassies for such functions;
  10. Accelerating the development of local and regional technological capacities and strengthening Arab technological infrastructures through promoting the establishment of national and regional Arab centers of excellence in technology and at the same time nurturing and promoting the development and diffusion of technological incubators;
  11. Attaching greater importance to the social dimensions of industrialization by pursuing the following:
    - increasing the participation of women in all aspects of the industrialization process within the context of our social and cultural environment;
    - promoting a more equitable distribution of income and poverty alleviation through employment generation;
  12. Empowering the private sector, NGOs and community initiatives and promoting partnerships with the public sector;
  13. Assisting in restructuring the private sector to enhance the development of new characteristics and traditions needed so that this sector can fulfill its due responsibilities;
  14. Promoting environment-friendly industrialization by putting a major emphasis on cleaner production and green industries.

#### *The micro level*

1. As entrepreneurial small businesses are now creating the bulk of new employment the world over, the governments of ESCWA countries need to promote such enterprises through special support mechanisms, marketing and management advice, and tax incentives.
2. Technology and business incubators can help provide such integrated support in one affordable package as part of a national SME strategy. Incubators and other support mechanisms should be provided initial State support as an investment in nurturing entrepreneurship.
3. Chambers of industry and commerce, when appropriately insulated from government interference can be effective. They need to be

- strengthened to provide training, information, advisory and promotional services. Private sector specialized institutions and mechanisms should be established and/or strengthened.
4. Entrepreneurship development programs being undertaken by ESCWA, often in cooperation with the Friedrich Ebert Stiftung, should now be raised to higher technical levels as the needs of the managers and start-up companies become increasingly sophisticated.
  5. An entrepreneurship program should be integrated into the overall educational system, starting at primary school level and on through college and executive courses.
  6. Further, ECSWA needs to initiate activities in new fields such as innovation strategies, consultancy capabilities, management of technology, and the regular exchange of trade and technology information.
  7. Universities, particularly engineering and technical colleges have to be transformed to provide training, research and consultancy (TRC) services, to better meet social needs in a rapidly changing global environment.
  8. ESCWA countries need to progress beyond traditional industries such as light mechanical/garment-type products to selected knowledge-based goods and services, such as computer software, microelectronics, pharmaceuticals, advanced materials, and environmental technologies, taking into consideration the comparative advantages of each country. Entry into niche markets requires better access to foreign know-how, adaptation through in-house research, and linkages to key players both south-south and south-north, and mostly identification and development of comparative competitive capabilities.
  9. Technology-based enterprises also require access to risk (venture) capital. Financial markets in selected countries should be encouraged to support venture capital initiatives through innovative mechanisms.
  10. SMEs – and large enterprises - need special assistance to enhance the quality of products, with related testing facilities, as well as to conform, as appropriate, to international standards and intellectual property protection, in their own interests. ESCWA initiatives in promoting the adherence to quality imperatives and practices, particularly efforts related to ISO 9000, should be enhanced through further seminars, training, workshops, and conferences.
  11. Expatriate nationals, that is ESCWA countries professionals now residing abroad, need encouragement and special incentives to re-transfer their skills and capital to their countries of origin, to participate in the effort to root the new economy in the region.
  12. Business persons must balance their preoccupation regarding perceived threats of massive Israeli encroachments into their markets, starting with a thorough study of the various aspects of the Israeli market and economy in preparation for mobilizing their comparative advantage to cope with Israeli challenges and to penetrate Israeli markets.
  13. Further forums must be provided for discussion between entrepreneurs, private sector institutions, decision-makers and academic experts, concerning the development and elaboration of the new industrial strategies and policies and the need for their implementation.



## *Japan's Contribution to Palestinian Society*

*Katsuyoshi Hayashi*<sup>1</sup>

It is very difficult to assess the extent to which Japan's contribution has served the Palestinian people. Much of our work involves direct coordination and cooperation with the UNDP, the reason being that when the Government of Japan first began to support the Palestinian people, it did not have the tools to materialize its willingness to help and it was the UNDP that realized Japan's contribution on the ground.

To discover the extent to which Japan's contribution has served the Palestinian people so far requires careful evaluation. Not a single party has yet evaluated the outcome of the past five years of donor contribution, which is a huge task, although we are thinking about doing an evaluation soon. One thing I want to stress is that Japan has a genuine desire to do something positive for the Palestinian society, and we want to ensure that any improvements have a direct impact on the daily lives of the greatest possible number of Palestinians.

I have often been asked the following question: Compared with the European assistance to the Palestinian people, Japan's contribution is very low-key, so why is Japan not doing more to publicize its projects? It is indeed true that many people are not fully aware of what Japan is doing on the ground, but this does not really bother us, because we are not here to conduct a publicity campaign, but to help people who are in need. If our approach is diplomatically 'incorrect', then so be it.

Before I go into the details of what Japan is doing on the ground, I will briefly touch upon its official development aid policy. The world is changing dramatically, and the interdependent relations have been changing in every field. No longer can any single country, including Japan, afford to pursue its own security and prosperity

in isolation from the rest of the world. Japan has no resources at all, which is why the basic foreign policy of the Japanese is to protect its trade relations by having good relations with every country and to contribute in maintaining peace and stability all over the world.

In 1992, Japan adopted a so-called overseas development assistance charter, which serves as a sort of guideline for Japanese overseas assistance. It is based on the recognition that overseas development assistance should help maintain and even increase the pace of growing independence and help shape a more desirable international community. In the end, this of course will be in Japan's interest, and in the interest of its citizens. Therefore, we are now addressing various global issues, such as poverty, social and economic services, and the deterioration of the environment, amongst others.

One very basic condition of Japan's policy is that Japan will not become a military power, so in that sense, our assistance has a great significance. Japan has the means and the tools of diplomacy, and we believe that Japan's national interest in the end will be in the stability of the international community. That is the basic principle of Japanese economic assistance.

Japanese overseas development assistance is built on four major pillars:

1. The necessity of aid coordination among donors;
2. The importance of both the individual and comprehensive approach;
3. Adopting a balanced development approach, which means economical and social development should be balanced with environmental protection;
4. South-south cooperation, which means one developing country will assist another developing country.

Specifically speaking, some of the more important issues that need to be addressed are global problems and basic human needs, human resources development, infrastructure improve-

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ment, and economic structural adjustments. It is in that context that Japan is formulating its assistance policy, and one of the important elements we consider in formulating our policy is basic human needs, the people's needs, which necessitates determining whether every project we undertake actually reflects people's needs.

Many people ask why Japan is focusing on the Middle East, in spite of it being so far away. There are two main answers. First, Japan's security is secured by its having good relations with all countries. Second, Japan depends on trade, not only on export but also on import. For example, 80 percent of Japan's oil comes from this area, which is why Japan is eager to see stability prevail in the Middle East.

In the Middle East, the major conflict is the conflict that exists here. Once this conflict is solved in one way or another, it will be much easier for Japan and other countries to address other issues, including political ones. In 1993, the Palestinians provided the entire world with a new opportunity when they opened the door with brave and courageous determination, and Japan was eager to respond to that courage, which is why Japan is focusing on this area.

I do not like to refer to Japan's activities in this area as a 'contribution', because it is not for me to say if our activities are contributing positively to others' lives or not. That is something that only the recipients can assess.

Although we are now actively involved in the peace process, including the political process, this was not the case before 1991 when the peace process started and when our involvement in the political process was strengthened. One of the major activities today is our activity in the multilateral working group framework. Ambassador Nogami was a so-called spearhead of Japanese diplomacy in those days; he was the first gavel holder or chairman of the Environmental Working Group. Japan achieved the first visible results in this framework, including the Environmental Code of Conduct for the Middle East, which was adopted in October 1994 during the Bahrain Meeting and is now considered one of the major achievements of this working group. Japan is also involved in the Economic Development Working Group. There is a subgroup involved in tourism, which established the Middle East and

Mediterranean Travel and Tourism Association in October 1995 in Amman, and Japan is a shepherd of the workshop on tourism. Therefore, our activities in the multilateral working group constitute one area of our activity.

The second area of Japanese activity is economic support to the Palestinian people and support to the surrounding countries, including Lebanon, Syria, Jordan and Egypt. According to our way of thinking, any peace here will not last unless the surrounding environment is stable, which explains why we are also concentrating on the neighboring countries.

The third area of Japanese activity is actual peacekeeping. Since February 1996, Japan has sent 45 soldiers to the Golan Heights to take part in peacekeeping operations under the umbrella of the United Nations Disengagement and Observer Force (UNDOF), which was established in 1974 after the Kissinger shuttle diplomacy between Syria and Israel.

With regard to what we are actually doing for the Palestinian people, in September 1993, there was a conference in Washington dealing with support to the Palestinians following the signing of the Oslo I Agreement. At the meeting, US\$2.4 billion was pledged by various donors, including Japan, which pledged US\$200 million over two years, a tendency that has continued for the last five years. At a more recent meeting, which took place last November in Washington, Japan pledged to continue its support to the Palestinians for the coming two years. Not a single country, except the United States, agreed to make five-year pledges, and they all restricted themselves to making one, two, or three-year pledges. I hope that the tendency of the Japanese government to contribute US\$200 million over two years will continue.

The money is distributed through two channels: through United Nations (UN) organizations, such as the UNDP or the UNRWA, and through the bilateral channel.

Japanese funding reaches most sectors, although we tend to concentrate on the health and education infrastructures and on the social-economic infrastructure, in addition to the field of institution building. One of the characteristics of Japanese assistance to the Palestinian people is the

large amount of money involved in the contributions through UN organizations: out of assistance totaling US\$400 million, some US\$300 has gone through UN organizations. There are several reasons for this, the most important being that when the Palestinians first established their own institutions, they needed assistance and they needed it quickly. Therefore, Japan decided that using the international organizations would prove a more reliable way of allowing projects to materialize as quickly as possible.

Concerning our attempts to help train Palestinians, we established trilateral cooperation with Egypt several years ago and we have sent many Palestinians there to benefit from the expertise of the Egyptian trainers. We have also sent Palestinians to Jordan to be trained in telecommunications. These are the south-south cooperation types of training on which Japan is concentrating. Last year, for example, about 60-70 Palestinians were sent to Jordan, Egypt or Singapore.

One type of important overseas assistance is loan assistance, involving low-interest, long-term repayment schedule loans. The reason why the Japanese have not yet implemented such a program is that the financial situation in Palestinian institutions is not solid enough to allow them to repay their debts. Many developing countries are suffering enormously because they are paying off so many debts, and Japan decided that it should refrain from burdening the Palestinians with any further financial commitments.

In general, the size of our bilateral grants for the larger projects ranges between US\$2 million and US\$20 million. Smaller scale projects, which are carried out in coordination with UN agencies, range in cost from between US\$500,000 and US\$3-4 million. Meanwhile, the ceiling for the Japanese grassroots program is much smaller. Using these three categories of assistance, Japan can cover all the different types of projects: small community-based projects through grant aid, medium-sized projects through UN agencies, and bigger projects, like Jericho Hospital, through our bilateral grants aid.

One point I would like to stress - because I know that there has been a lot of speculation about the fate of large amounts of donor assistance - is that there is no misuse whatsoever of Japanese aid. Why? Because we are extremely careful. What

happens with regard to our bilateral grant aid is that we sign an agreement with the Palestinian Authority (PA), after which a special account is opened for the project in a bank in Japan while the PA authorizes the bank to use the money for the particular project. Next, the PA signs a commercial contract with a Japanese company and the project begins. Of course, the Japanese company will need some money at the start of the project, maybe in the middle and certainly at the end, and the payment is made based on the authorization of payment issued by the PA. Based on the authorization it already possesses, the bank will then issue the money, and if the Japanese company is using a Palestinian company as a subcontractor, it will pass the money on. What all this means is that the PA never actually sees the money. This is the way we operate all over the world.

There are several interesting projects Japan is implementing with the UNDP, one of which involves hiring Palestinian professionals living abroad on a contract basis and bringing them to this area to work with the PA. This is a very unique and creative project, created by the UNDP, of which we are extremely proud. In fact, the World Bank is now implementing a similar type of project.

Another interesting project we are carrying out with the UNDP is the Local Rural Development Program. The local community in the Jenin area, for instance, formulated a sort of council, came up with a project, and then implemented it under the supervision of the UNDP using a small amount of local money but mainly funds from Japan. The people themselves participate in the project implementation, and the fact that they feel that the projects are their own is very important.

We are doing our best, but to be quite honest, we sometimes feel very frustrated, not least of all because of the lack of communication inside many institutions. In some ministries, there is no communication and information sharing at all, even in the different departments, which is a great pity. I receive many letters every day asking for something. Of course, Japan wants its money to be utilized as efficiently as possible, which is one of the reasons why it believes that there should be a more efficient coordination mechanism that reflects people's needs.



*Participant:* How would you explain this lack of communication? Is it the result of a desire by high-ranking officials to maintain all the power?

*Mr. Hayashi:* Information is a source of power, and a strong link with any donor is also a source of power, but people have to understand that holding on to too much power can be a very destructive thing. They have to learn that the answer to many problems is teamwork.

*Participant:* I have been working with the Palestinian Ministry of Industry since 1994. I know from personal experience that if I seek Japanese help with regard to a certain project, I will be told to go to the Ministry of Planning and International Cooperation (MOPIC) and contact you through them, which means that a mechanism does exist.

*Mr. Hayashi:* MOPIC is the window ministry but this does not stop people from calling on us.

*Dr. Mahdi Abdul Hadi:* If I may clarify, the system is blind, and it is only one or two people who really know what is going on and what is needed but they have no intention of working as part of a team. How can we develop communications within a ministry if everyone, excluding one or two officials, is totally ignorant about what is going on between the ministry and Japan? If everything is in one person's hands, there is always the danger that he will one day leave, taking everything with him.

*Participant:* I disagree. If we are implementing a two-year program, it means that there is a commitment to this program by all the ministers, guided by MOPIC. Nothing is going to fall apart if one person is away; all those participating in the project know exactly what is going on.

*Mr. Hayashi:* The point I am trying to make is that information sharing is very important in any institution.

*Participant:* The Palestinian Legislative Council (PLC) is aware of this problem. It realizes that there is no coordination or communication, which is why it established procedures so that heads of departments will all take part in a weekly meeting and each department holds a meeting every morning.

*Mr. Hayashi:* I have been working in this area for some time, and I can say in all honesty that

working with Palestinians is often enjoyable because if I ask something, my question is usually met with a response, which is very good. In addition, people are very keen to deal with their own future, which is also very good. Fortunately, you do not have a bad bureaucracy and there is every possibility that you could create quite an efficient system, which is why we are doing our best to help you. But all we can do is to prepare the environment - how you utilize it is up to you. It is you who must decide your future.

*Participant:* What are you doing to help Palestinian tourism?

*Mr. Hayashi:* For example, we have played a role in the Bethlehem 2000 project by contributing to the rehabilitation of the city through the UNDP.

*Participant:* How do you decide how much assistance is to be channeled to a certain field? For example, tourism is very vital to the Palestinian economy, but you have granted it less than one percent of your total assistance to the Palestinians.

*Mr. Hayashi:* Japanese contribution to tourism is low because tourism depends largely on the private sector and there are not many things that the government institutions can do in this field.

*Participant:* You do not seem to give much assistance to the private sector, for example, by helping the Chambers of Commerce, etc.

*Mr. Hayashi:* No, the recipients of our assistance are NGOs or Palestinian institutions, not private sector companies. This is because the Government of Japan's policy is that the assistance money comes from the taxpayer's money and, this being the case, it should not be used to facilitate the making of commercial profit.

*Participant:* Would you consider supporting some kind of college concentrating on textile technology, for example?

*Mr. Hayashi:* I don't think so, not because we do not consider this sector important, but because we are lacking the 'keys' to support it. For instance, some countries have a program like democracy support, or human rights support, and they can utilize the money available very flexibly, but we do not have that kind of scheme.

*Participant:* The people here feel the presence of the Americans and French, for example, through their cultural centers. This is not the case with

the Japanese. I think you need to do a lot more to make people understand more about Japan.

*Mr. Hayashi:* Yes, I admit that we are at fault. Until I took up my post, only two people were dealing with assistance, and unfortunately, they did not have the capacity to extend their activities to cultural areas. We are currently in the process of enlarging our staff and have gradually started to organize more cultural activities in a bid to introduce the Palestinians to something about Japan, which is one of the reasons why we decided to take part in this seminar.

*Participant:* Do you expect there will be an increase or decrease in Japanese assistance to the Palestinians, and particularly their infrastructure projects, over the next five years?

*Mr. Hayashi:* In Japan, like elsewhere in the world, the government is always trying to convince the domestic audience of the importance of our overseas assistance with regard to security, etc. Naturally, when the domestic economic situation is deteriorating, it becomes very hard to convince public opinion of the value of continuing this sort of aid.

*Participant:* To what extent is Japan's political approach to this region tied to its reliance on oil?

*Mr. Hayashi:* Without its imports and exports, Japanese society could not function. The global political system changed dramatically in the 1980s, particularly in the mid-1980s. Everybody thought that the problem you are facing here was impossible to solve. However, you gave the world community hope in 1993, which is why we bet on you – the Palestinians and Israelis – and your ability to succeed in this endeavor.

*Participant:* What is the ceiling of the grassroots projects?

*Mr. Hayashi:* US\$70,000.

*Dr. Rosemary Hollis:* Are projects brought to the attention of the Japanese Government through the embassy?

*Mr. Hayashi:* After we have received the request from one of the Palestinian ministries, we discuss the matter further with the PA and then, on the basis of these discussions, we decide whether the project should be implemented or not. After that, we send technical teams to the region at least twice to conduct surveys and seek the advice of other donors with experience in the same

field. This all takes about a year. Assuming that we are convinced that the project is feasible, and based on the surveys, we then commit ourselves.

I realize that the Palestinians often get frustrated with us because they have to wait such a long time for an answer, but these procedures are necessary in order to make sure that the projects are worthwhile. The most difficult problem is not actually constructing the facility, but maintaining and managing it once it is built.

*Dr. Hollis:* Grassroots projects, in some cases, are presumably presented by the NGOs. How is their approach to presenting new projects different to that of the PA?

*Mr. Hayashi:* For grassroots projects, the NGOs contact us directly, not through the PA. Education is the only area where things are coordinated with the PA. At the beginning of each fiscal year, we discuss with officials from the Ministry of Education which rehabilitation projects should be given priority. Sometimes, however, we work independently.

*Participant:* What type of communication channels do you use in Japan? Is it a top to bottom or bottom to top system?

*Mr. Hayashi:* In Japan, the bottom to top system prevails, and I realize that many people in other countries find it very difficult to comprehend how this actually works. In Japan, it is the desk officers at the various ministries who formulate policies and guidelines, etc. Once these policies and guidelines are formulated, the desk officer concerned will raise his idea in front of his directors, who, if they approve, will take it to the director-general level, from where, if necessary, it will be go to the deputy minister level and maybe even to the ministerial level. In many cases, policies are formulated and implemented at the director level. We have, needless to say, capable, creative and energetic desk officers, many of whom are still in their thirties.

*Participant:* What do the people at the top do?

*Mr. Hayashi:* They concentrate mainly on issues that are vital to the Japanese interest. We know if a particular issue should be raised at the ministerial level or not. For instance, Japan's pledge of US\$200 million would go to the ministerial level, but whether or not a small contribution should go to an NGO would be a decision made even at the deputy director level.

*Dr. Abdul Hadi:* The European countries often consult with one another and debate and develop various positions regarding how to support - or not support - the peace process. Do the Japanese engage in consultation with other countries?

*Mr. Hayashi:* Yes, there is an ongoing dialogue with the European countries, not only concerning economic issues but concerning other issues as well. There is also a local donors committee, which meets to discuss various issues.

*Participant:* Is Japan as militarily insignificant as it claims to be?

*Mr. Hayashi:* We have forces to defend the country, but any kind of involvement abroad is a very sensitive issue. Before sending the 45 Japanese soldiers to the Golan Heights, there was a huge argument in Japan, with mothers asking the government, "Are you going to send my son to the battlefield again?" The Japanese people are fed up with war.

*Dr. Abdul Hadi:* In the United States there is the FBI and the CIA, in England MI5 and MI6, and in Israel the Shin Bet and the Mossad. What kind of intelligence do you have in Japan?

*Mr. Hayashi:* Intelligence is one of our weakest areas, one of the reasons being the fact that our intelligence system was dismantled by the Americans after World War II. There are four or five small institutions, but compared to those existing elsewhere in the world, they are relatively limited.

*Participant:* To what extent is it possible for Japan's financial assistance to give Japan influence in the Middle East, bearing in mind that it has a limited military capability? As far as I can see, Japan's influence on the Middle East Peace Process is relatively insignificant because its political decisions are influenced by the United States; one only has to look to the Gulf War for proof of this. I would say that in most of the important matters, the United States has had some influence on Japan's decisions.

*Participant:* I do not believe that the fact that Japan does or does not have any military power is really that important. I think that what really matters at this point is the money that we are receiving from Japan. If Japan came and told us, "If you don't do this or that we are not going to give you any more money," whether we like it or not, we are going to do what Japan wants. The

same applies to our reactions to the demands of any other of the large donors because of the weakness of our current situation.

*Participant:* I have the feeling that Japan often hides behind the United States and that if it really wanted to, it is fully capable of making choices that are different to those of America, such as those it made in the 1970s, when it supported the Palestinian Liberation Organization (PLO) and allowed a PLO office to open in Japan.

*Dr. Hollis:* I am wondering if, based on what I am hearing now, the fact is that Japan cannot win, because on the one hand, even if it puts money into practical developmental grants it is going to be criticized for not having a high enough political profile, whereas on the other hand, if it were to adopt a higher political profile, then the advantage of Japan being simply a donor and of practical use would disappear and everybody would be asking, "What's their agenda, what do they really want to happen, etc. etc.?" Do you, the participants, think that the roads, sewers, and the training programs etc., will establish goodwill towards Japan distinct from its policy position and have an effect on Palestinian development?

*Participant:* My personal belief is that Japan is trying to translate its huge economical power into political power, not just here but all over the world, mainly because it wants to be 'Number One' in East Asia and because it wants the receiving countries to say in the future, "We remember what Japan did for us."

*Participant:* It is unlikely that we will forget Japan's financial contribution, but I think all of us would like there to be some kind of integration between economic and political issues and for Japan to be more involved in the political sphere. Japan, according to what we have heard, is keen to establish good relations with other countries, and I think that its recognition of the PLO and its contribution to the state-building process suggest that we will be able to rely on its support in the future.



## Appendices:

## Japanese Assistance List 1993-1998

SECTOR	Kind of assistance	Projects No.	Projects %	Amount US\$	Amount %
Health Infrastructure	<i>Bilateral</i>	3	2.46	46,740,000	14.65
	<i>UNDP</i>	3	2.46	5,850,000	1.83
	<i>UNRWA</i>	3	2.46	490,000	0.15
	<b>Total</b>	<b>9</b>	<b>7.38</b>	<b>53,080,000</b>	<b>16.64</b>
Educational Infrastructure	<i>Bilateral</i>	3	2.46	32,570,000	10.21
	<i>UNDP</i>	5	4.10	6,250,000	1.96
	<i>UNRWA</i>	7	5.74	7,201,000	2.26
	<b>Total</b>	<b>15</b>	<b>12.30</b>	<b>46,021,000</b>	<b>14.43</b>
Social / Economic Infrastructure	<i>Bilateral</i>	2	1.64	4,990,000	1.56
	<i>UNDP</i>	16	13.12	43,445,000	13.62
	<i>UNRWA</i>	3	2.46	2,535,760	0.80
	<b>Total</b>	<b>21</b>	<b>17.22</b>	<b>50,970,760</b>	<b>15.98</b>
Water / Sanitation Infrastructure	<i>Bilateral</i>	1	0.82	11,250,000	3.53
	<i>UNDP</i>	12	9.84	13,950,000	4.37
	<i>UNRWA</i>	2	1.64	854,000	0.27
	<b>Total</b>	<b>15</b>	<b>12.30</b>	<b>26,054,000</b>	<b>8.17</b>
Agricultural Development	<i>Bilateral</i>	2	1.64	6,840,000	2.14
	<i>UNDP</i>	5	4.10	9,500,000	2.98
	<i>UNRWA</i>	0	0	0	0
	<b>Total</b>	<b>7</b>	<b>5.74</b>	<b>16,340,000</b>	<b>5.12</b>
Institution / Capacity Building	<i>Bilateral</i>	3	2.46	4,030,000	1.26
	<i>UNDP</i>	30	24.60	48,700,000	15.27
	<i>UNRWA</i>	0	0	0	0
	<b>Total</b>	<b>33</b>	<b>27.05</b>	<b>52,730,000</b>	<b>16.53</b>
Tourism	<i>Bilateral</i>	0	0	0	0
	<i>UNDP</i>	2	1.64	3,085,000	0.97
	<i>UNRWA</i>	0	0	0	0
	<b>Total</b>	<b>2</b>	<b>1.64</b>	<b>3,085,000</b>	<b>0.97</b>
Housing	<i>Bilateral</i>	0	0	0	0
	<i>UNDP</i>	1	0.82	10,000,000	3.14
	<i>UNRWA</i>	2	1.64	12,800,000	4.01
	<b>Total</b>	<b>3</b>	<b>2.46</b>	<b>22,800,000</b>	<b>7.15</b>
Environment	<i>Bilateral</i>	0	0	0	0
	<i>UNDP</i>	1	0.82	5,000,000	1.57
	<i>UNRWA</i>	4	3.28	5,800,000	1.82
	<b>Total</b>	<b>5</b>	<b>4.10</b>	<b>10,800,000</b>	<b>3.39</b>
Scholarships	<i>Bilateral</i>	0	0	0	0
	<i>UNDP</i>	0	0	0	0
	<i>UNRWA</i>	5	4.10	2,500,000	0.78
	<b>Total</b>	<b>5</b>	<b>4.10</b>	<b>2,500,000</b>	<b>0.78</b>
Humanitarian Aid	<i>Bilateral</i>	0	0	0	0
	<i>UNDP</i>	0	0	0	0
	<i>UNRWA</i>	5	4.10	33,920,000	10.63
	<b>Total</b>	<b>5</b>	<b>4.10</b>	<b>33,920,000</b>	<b>10.63</b>
Income Generation	<i>Bilateral</i>	0	0	0	0
	<i>UNDP</i>	0	0	0	0
	<i>UNRWA</i>	2	1.64	650,000	0.20
	<b>Total</b>	<b>2</b>	<b>1.64</b>	<b>650,000</b>	<b>0.20</b>

**Note:** In many cases, UNDP projects consist of a number of project components.

*Japan's Grand Total Assistance List*

<i>Kind of Assistance</i>	<i>No. of projects</i>	<i>Percentage of projects</i>	<i>Total Amount</i>	<i>Percentage of Total Amount</i>
<i>Bilateral</i>	14	11.48	106,420,000	33.37
<i>UNDP</i>	75	61.48	145,780,000	45.71
<i>UNRWA</i>	33	27.05	66,750,760	20.93
<b><i>Grand Total</i></b>	<b>122</b>	<b>100.00</b>	<b>318,950,760</b>	<b>100.00</b>

*Japan's Assistance for the Palestinians in Million US Dollars (as of 4/1999)*

<b>AGENCIES</b>	<b>FISCAL YEAR *</b>						<b>TOTAL</b>
	1993	1994	1995	1996	1997	1998	
UNDP Japan-Palestine Development Fund	23 (3.5 to Holst Fund)	17.5	23.5 (3.5 to Holst Fund)	26	21	28.31	139.31
World Bank Holst Fund	-----	5	3	3.5	-----	-----	11.5
UNRWA (Food Assistance)	16.5	17.5 9.43	23.5 9.4	18.5 7.20	15.6 7.48	10.24 6.70	101.84 40.21
World Bank Trust Fund	5	-----	-----	-----	-----	-----	5
ICRC	----	1	1	0.23	0.82	1.37	4.42
WHO	5.4	-----	-----	----	-----	-----	5.4
The Japan Red Cross	2.5	-----	-----	-----	-----	-----	2.5
IFAD. WID Fund					0.4		0.4
Assistance Through International Organization	52.40	50.43	60.40	55.43	45.30	46.62	310.58
Grassroots Projects	0.22	0.39	0.95	1.13	1.26	1.30	5.25
Training	0.52	0.87	1.06	1.41	1.43		5.29
Total Direct Grant Aid (elections)	-----	-----	21.96 0.8	30.03	34.77	34.28	121.04 0.8
<b>TOTAL</b>	<b>53.14</b>	<b>51.69</b>	<b>85.17</b>	<b>88.00</b>	<b>82.76</b>	<b>82.20</b>	<b>442.96</b>

\* Japan's fiscal year starts from April and ends in March.

- Japan sent a group of 77 people, including members of the Diet, to serve as international election observers, and also provided about US\$ 0.8 million for the election.
- Various training courses have been offered to the Palestinians in sectors such as administration, electricity, construction and etc. Palestinian trainees are invited to Japan as well as to other countries such as Egypt and Jordan. In 1997, for example, 133 Palestinians participated in these courses.

## *Debate on Japan and the Middle East*

**Prof. Akifumi Ikeda:** It should now be clear to all of you that there is no sentimental sympathy towards your cause or the situation here in Japan and that Japan, in facilitating the advancement of the peace process, is doing so out of a desire to protect its own national interests, which are related to the security situation in the Far East as well as our own economic needs.

**Dr. Mahdi Abdul Hadi:** As Palestinians, what would be your message if you were to go and speak to the Japanese? Would your message be the same as the Egyptian message, i.e., security and the peace process, or do you have something else to say, realizing that the Japanese have their special agenda and interests and sympathize with us?

**Participant:** I now know quite a bit about the Japanese, their relationship with China and the United States, the security issue and the fact that they do not have a lot of resources, so I would probably talk to them about peace and prosperity and a strategic alliance between the Japanese and the Palestinians in terms of know-how, expertise, development, etc. On the other hand, I would tell them that we could provide a good business base for the Japanese interests throughout the Middle East. I would speak less about the injustice and the sympathy issues.

**Dr. Rosemary Hollis:** When the Japanese talk to the Israelis, do they ever mention the Palestinians? What do they say?

**Prof. Ikeda:** Yes, as we believe that our national interest is to help achieve the goals of the peace process because in the long run, this will serve our own interest.

**Dr. Abdul Hadi:** Would you use the same language as Dennis Ross, who has just said that settlements are devastating and very bad for the peace process?

**Prof. Ikeda:** I think so. I have talked to a couple of people at the Japanese Embassy and I know that this is a part of the Japanese-Israeli dialogue.

**Participant:** I think that since the Desert Storm operation in 1991, the Japanese have come to realize that apart from the Arab-Israeli conflict, one also has to consider the inter-Arab conflict in dealing with the issue of stability or instability in the Middle East.

**Prof. Ikeda:** As I see it, the Japanese started to realize that the Arab-Israeli conflict and the Palestinian problem are not the core of the whole Middle Eastern situation in the mid-1980s when Iraq and Iran went to war and we witnessed the wars in Afghanistan and Lebanon.

**Ms. Raquel Shaoul:** The difference is that the Iran-Iraq war had not so much to do with the Americans, whereas with the Gulf Crisis, for the first time in the modern history of the Middle East, two Arab countries went to war under the American umbrella.

**Participant:** Do you really believe in our right as Palestinians to declare our state?

**Prof. Ikeda:** I will put it in this way: We see the essence of the current peace process change from conflict to coexistence and from the existential conflict between the two nations into competition among the states. It is quite natural for everybody to acknowledge or recognize the right of independence, and this is our basic position towards the necessity of the Palestinians having an independent sovereign state.

**Participant:** I used to think that Japan would support the Palestinians in their demands, but now, after this seminar during which we have heard a lot about Japan's interests in the Middle East, I am not so sure.

**Dr. Abdul Hadi:** Can you tell the Palestinians that we are building your institutions, we are supporting your sewage system, we are putting money in the universities and we are doing A, B, C, D and once you say that you want to exercise your right to self-determination and declare your state we will be there for you?

**Prof. Ikeda:** Within the framework of the peace process, yes.

**Dr. Abdul Hadi:** When you say within the framework of the peace process, is what you are actually saying “With the consent of the Israelis?”

**Prof. Ikeda:** You must understand that we are going through a tremendous recession back home and the Southeast Asian economies are being torpedoed one by one, so it is becoming increasingly difficult to sustain our past effort.

**Dr. Hollis:** Japan’s interest in the Middle East has nothing to do with love nor justice but everything to do with national interests. Now, my question is as follows: Is one of Japan’s interests recruiting American goodwill for the Southeast Asian context and does Japan see what it does here as serving its interests in Southeast Asia?

**Prof. Ikeda:** Do you mean security?

**Dr. Hollis:** And the relationship with America.

**Prof. Ikeda:** To a certain degree yes. There is a general belief in our part of the world that there is going to be a serious development in the Korean Peninsula, which is just next to us and that eventually, we are likely to have some kind of collision with China, so we need to maintain our alliance relationship with the United States. This, of course, entails sustaining American efforts in the Middle East.

**Participant:** Assuming that the Asian economies recover, could the Asian countries eventually play a role similar to that of the Americans and Europeans *vis-à-vis* the Middle East?

**Prof. Ikeda:** I doubt it very much because we are not like the European countries, which are a kind of security community and which have, in a way, a sort of common ground. In Southeast Asia or East Asia we are still far away from reaching that sort of united integrated situation, not least of all because Japan is still viewed with a certain kind of suspicion by Korea, China, and the Southeast Asian countries.

**Ms. Shaoul:** I think that the most critical problem is the self-determination of the Palestinian people, while the second is culture. I do not agree

with you that this Japanese sense of vulnerability is only connected to raw materials. In my opinion, another reason is that culturally, the Japanese feel so different from the Asians.

**Dr. Abdul Hadi:** It is up to us to convince the Japanese that not for love or for values or ethics but for their own interests they should work on supporting the Palestinians and ensuring that there is peace and stability in the Arab World. Maybe we should build on the notion that Japan should free itself of American pressure or guidance in regard to the Palestinian right to self-determination. How do we pressure you?

**Prof. Ikeda:** That is a question to which you, not I should provide an answer.

**Dr. Abdul Hadi:** The stronger we are in the Arab house, the stronger we can speak as one Arab voice *vis-à-vis* the Japanese-Arab relationship.

**Professor Ikeda:** Were all the Arab countries to come to us with one message, yes, we would be under some serious pressure. From our point of view, the fact that you all have different policies makes things easier for us, as we can deal with you separately, one by one and issue by issue.

**Participant:** If the Americans had not asked Japan to participate in the peace process, would it have sought a role?

**Prof. Ikeda:** I think that the Japanese Government might have played a role anyway but that it would not have gone out of its way to seek one.

**Dr. Abdul Hadi:** We have been told by many countries that they could not talk to us before the peace process but that since the peace process began, they have been more at ease in dealing with us. Is that true?

**Prof. Ikeda:** I think so. After the Oslo Accords and the establishment of your autonomous government, there was an official channel of communication for the very first time, which helped immensely. One should also not forget that the Japanese economic assistance was only possible in the past through international organizations like UNRWA or UNDP, whereas now we are dealing with you directly.

**Participant:** Going back to the key elements in your foreign policy, namely oil and the relationship with the Americans, I would add a third element, which is less important because it is a matter of perception. For many years before the peace process, the Japanese sympathized with the Palestinians because they saw them as victims and identified with them, the Japanese themselves having been the victims of the end of World War II.

**Prof. Ikeda:** It could help explain the Japanese attitude towards Palestine, but I doubt that it affects our policy.

**Participant:** As a huge sibling of the United States political system, you will inevitably adopt the American system of lobbying. Does the Japanese political system allow for widespread lobbying, and if it does, are there any specific groups that could actually affect the Middle East policy of the Japanese Government?

**Prof. Ikeda:** Yes, we have pressure groups or lobbying groups but I do not think that they are as powerful as the groups in America. The pressure groups in this case are oil companies or associations of oil companies.

**Dr. Hollis:** Could you say something more about the element of ambivalence in the Japanese-American relationship?

**Prof. Ikeda:** We once fought with the Americans and were totally defeated and the Americans occupied us for many years, so it is all rather complicated. Now, due to our current economic landscape, we are using our computers all the time, why? Because we have to cope with the so-called global standard or globalization of the economy, which many refer to not as the global standard but as Americanization and the American standard.





# Appendices

<i>Appendix A:</i>	<b>Lecture Program and Lecturers</b>
<i>Appendix B:</i>	<b>Palestinian Participants</b>
<i>Appendix C:</i>	<b>Reading Material</b>
<i>Appendix D:</i>	<b>Japan at a Glance</b>

## APPENDIX A:

*Lecture Program and Lecturers***DAY ONE: Sunday, 14 March**

- 8:30–9:30 *Registration / Group Photographs*
- 9:30–11:00 *Opening Remarks and Orientation*  
**Dr. Mahdi Abdul Hadi**  
**Dr. Rosemary Hollis**
- 11:00–11:15 Coffee Break
- 11:15–12:45 *Overview: The Axis of Japan's Foreign Policy*  
**HE Yoshiji Nogami**
- 12:45–14:00 Lunch
- 14:00–15:30 *Japanese Economic Development after World War II*  
**Prof. Osamu Nariai**
- 15:30–15:45 Tea Break
- 15:45–17:00 *Japan and the Asian Economy*  
**Prof. Osamu Nariai**

**DAY TWO: Monday, 15 March**

- 9:00–10:30 *Pre-Modern History of Japan*  
**Prof. Ben-Ami Shillony**
- 10:30–10:45 Coffee Break
- 10:45–12:15 *Modern History of Japan*  
**Prof. Ben-Ami Shillony**
- 12:15–13:30 Lunch
- 13:30–15:00 *States and the International System – Theoretical Overview*  
**Dr. Rosemary Hollis**
- 15:00–15:15 Tea Break
- 15:15–16:45 *Japan in the International System*  
**Dr. Rosemary Hollis and Raquel Shaoul**

**DAY THREE: Tuesday, 16 March**

- 9:00–11:00 *Participant Presentations*  
**Dr. Rosemary Hollis**
- 11:00–11:30 Coffee Break
- 11:30–13:00 *Debate on the Japanese Economy*  
**Prof. Osamu Nariai**
- 13:00–14:15 Lunch
- 14:15–17:00 *Participant Exercise and Film: The Story of a Friendship, Japan and Palestine*  
**Dr. Rosemary Hollis**

**DAY FOUR: Wednesday, 17 March**

- 9:00–10:30 *The Political System of Contemporary Japan*  
**Prof. Ikuo Kume**
- 10:30–10:45 Coffee Break
- 10:45–12:15 *Japan's Decision-Making Process and Debate on Japanese Politics*  
**Prof. Ikuo Kume**
- 12:15–13:30 Lunch
- 13:30–15:00 *Japanese Software Industry*  
**Kazuhiko Adachi**
- 15:00–15:15 Tea Break
- 15:15–16:45 *Trends in Japanese Venture Business*  
**Kazuhiko Adachi**

**DAY FIVE: Thursday, 18 March**

- 9:00–10:30 *Economic Relations between Asia and the Middle East*  
**Yoshiki Hatanaka**
- 10:30–10:45 Coffee Break

- 10:45-12:15 *Promotion of Private Investment in the Middle East – A Japanese Perspective*  
**Yoshiki Hatanaka**
- 12:15-13:30 Lunch
- 13:30-15:00 *Political Relations between Japan and the Middle East*  
**Prof. Akifumi Ikeda**
- 15:00-15:15 Tea Break
- 15:15-16:45 *Japan: New Political Approach to the Middle East*  
**Raquel Shaoul**

#### DAY SIX: Friday, 19 March

- 9:00-10:30 *Japan's Contribution to Palestinian Society*  
**Katsuyoshi Hayashi**
- 10:30-10:45 Coffee Break
- 10:45-12:15 *Palestinian Perspectives on Japan and the Japanese*  
**Dr. Mahdi Abdul Hadi**
- 12:15-13:30 Lunch
- 13:30-15:00 *Debate on Japan and the Middle East*  
**Prof. Akifumi Ikeda and Raquel Shaoul**
- 15:00-15:15 Tea Break
- 15:15-16:30 *Participant Feedback and Conclusion of Seminar*  
**Dr. Rosemary Hollis**

#### Lecturers

##### DR. MAHDI ABDUL HADI

Head of PASSIA, Jerusalem

##### KAZUHIKO ADACHI

Chairman, International Committee of Japan PC Software Association and President of Intelligent Wave, Inc.

##### YOSHIKI HATANAKA

Executive Chief Economist, Institute for International Economic Studies, Tokyo

##### KATSUYOSHI HAYASHI

Head, Japanese Representative Office to the PNA, Gaza / Embassy of Japan, Tel Aviv

##### DR. ROSEMARY HOLLIS

Head, Middle East Program, Royal Institute of International Affairs (RIIA – Chatham House), London

##### PROF. AKIFUMI IKEDA

Associate Professor, Faculty of Science, Toyo Eiwa Women's University

##### HE YOSHIJI NOGAMI

Ambassador of Japan to the OECD, Paris

##### PROF. IKUO KUME

Professor of Law, Kobe University

##### PROF. OSAMU NARIAI

Professor of International Economics, Reitaku University, and Advisor for Nakamae International Economic Research (NIER)

##### RAQUEL SHAOUL

Ph.D. Candidate, King's College, London

##### PROF. BEN-AMI SHILLONY

Professor of Japanese History, Hebrew University of Jerusalem

APPENDIX B:  
*Palestinian Participants*

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**ABBAS, Al-Somida**

- \*1959, Jerusalem; living and working in Ramallah
- B.Sc. Mechanical Engineering; M.Sc. Production Engineering, Lulen University
- Director of Free Industrial Zones, Ministry of Industry; Consultant, The Northern District of Sweden
- Assignment: *Japan: Major Foreign Policy Goals and Strategies.*

**ABU EMARA/TAQQASH, Amal**

- \*1949, Jaffa; living and working in Gaza
- BA Business Administration, Ein Shams University, Egypt; MA Development of Art/Education, Xavier University, USA
- Director, Community Develop Dept., Gaza Governorate; previously, Director, Palestinian Child Theater
- Assignment: *Japan: Major Foreign Policy Goals and Strategies.*

**ABU KHADIJEH, Jamal**

- \*1956, Jerusalem; living in Jerusalem and working in Ramallah
- BA English, University of Jordan
- Translator/Project Assistant, ARD; previously, Translator, Spimaco, Saudi Arabia
- Assignment: *Japan: Relations With and Policies Toward the Middle East.*

**ABU ZARUR, Bashar**

- \*1974, Nablus; living in Nablus and working in Ramallah
- BA Business Administration, An-Najah University
- Expenditure Auditor, International Auditing Department, Ministry of Finance; previously, Accountant, Azzoni for Trading and Services Co.
- Assignment: *Japan: The Economy - General Characteristics, Infrastructure, Business, Industry, Agriculture, GDP, Public and Private Sectors.*

**AMRO, Abeer**

- \*1965, Hebron; living and working in Ramallah
- BA English Literature and Political Science, University of Jordan

- Assistant General and Operations Manager, Arab Company for Medical and Agricultural Products; previously, Customer Services Officer, British Bank
- Assignment: *Japan: Business Culture and Management Philosophy.*

**AWAWDEH, Shaher**

- \*1966, Dura; living in Bethlehem and working in Jerusalem
- MA Middle East Politics, Exeter University
- Asia-Pacific Desk Officer, Orient House
- Assignment: *Japan: Society and Culture - Values and Religious and Philosophical Traditions.*

**DABIT, Costandi**

- \*1961, Jerusalem; living and working in Jerusalem
- BA Business Administration, Birzeit University
- Translator, *The Jerusalem Times*; previously, Accountant/Assistant, British Council
- Assignment: *Japan: The Political System and Structure of Government: Legislature, Executive, Judiciary, Electoral System.*

**DOUGHLUS, Isam**

- \*1956, Jordan; living in Bourqa and working in Jerusalem
- BSc General Nursing, Al-Quds University; MA Management, Al-Quds University; Post Graduate Diploma
- Hospital Supervisor, Maqassed Islamic Hospital; previously, Assistant Nursing Director, Mt. David Hospital, Bethlehem
- Assignment: *Japan: Basic Characteristics - Geographical Features, Natural Resources, Population Size, Age Distribution, Ethnic Groups, etc.*

**GHOSHEH, Moaze**

- \*1967, Kuwait; living in Jerusalem and working in Ramallah
- BA English, Kuwait University
- Director, International and Trade Cooperation, Ministry of Trade and Economy; previously, Operation Manager, Amman Bank for Investment, Jordan
- Assignment: *Japan: Business Culture and Management Philosophy.*

**HABASH, Nojoud**

- \*1974, Nablus; living in Nablus and working in Ramallah
- BA Business Administration, An-Najah University, Nablus
- Managerial Assistant/Computer Department, Ministry of Finance
- Assignment: *Japan: The Economy – General Characteristics, Infrastructure, Business, Industry, Agriculture, GDP, Public and Private Sectors.*

**INAIM, Zuheir**

- \*1962, Beit Ummar; living and working in Hebron
- BSc Civil Engineering
- Project Manager, At-Taer Al-Falastini Co.; previously, Site Engineer, Yousef Banei' Co.
- Assignment: *Japan: Relations With and Policies Toward the Middle East.*

**MORCOS, Huda**

- \*1958, living in Beit Jala
- BA Business Administration, Bethlehem University; Diploma of Higher Studies, Administration of Governmental Institutions, CNESS, France
- previously, Teacher, Business Administration and Accounting, YWCA, Jerusalem
- Assignment: *Japan - Basic Characteristics: Geographical Features, Natural Resources, Age Distribution, Population, Ethnic Groups, etc.*

**QAWASMEH, Hamed**

- \*1970, Kuwait; living in Hebron and working in Bethlehem
- MA Political Science, Idaho State University, USA; BSc Mathematics and Physics, Idaho State University, USA
- Project Coordinator, Artas Folklore Center, Bethlehem; previously, Project Officer, Palestinian Center for Micro-Projects Development, Jerusalem
- Assignment: *Japan: Relations With and Policies Toward the Middle East.*

**SA'ADEH, Ibrahim**

- \*1968, Yamun; living and working in Ramallah
- BA Sociology, Birzeit University; Diploma, Comparative European Social Studies, Amsterdam University; MA International Relations, Birzeit University
- Director of Students' Services, Ministry of Higher Education; previously, Researcher, Birzeit University
- Assignment: *Japan: Recent History – Since World War II with Focus on 1980s/1990s.*

**SABBAGH, Mervat**

- \*1972, Haifa; living and working in Rama Village
- BSc International Trade; MSc Global Marketing, Philadelphia College of Science
- Consultant, PADICO; previously, Account Manager, Company Delta, Carmel
- Assignment: *Japan: Society and Culture – Values and Religious and Philosophical Traditions.*

**SALEH, Nasser**

- \*1970, Egypt; living and working in Gaza
- B.Sc. Telecommunications and Computer Engineering, Sudan
- Chairman of Studies and Research, National Security Forces; previously, Teacher, Al-Azhar University
- Assignment: *Japan: Recent History – Since World War II with the Focus on 1980-1990s.*

APPENDIX C:  
*Reading Material*

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### Required Reading

(according to assignment)

Ash, Toby. "The Recession That Won't Go Away", in: *Japan and the Middle East, MEED Special Report*, Vol. 41, No. 48, 1997.

Ikeda, Akifumi. "Japan's Relations with Israel", in: *Japan in the Contemporary Middle East*, ed. by Sugihara, K. and J. A. Allan, London: Routledge, 1993, pp. 155-169.

Katakura, Kunio. "Japan and the Middle East: Towards a More Positive Role", in: *The Politics of Middle East Oil*, ed. by Paul Tempest, London: Graham & Trotman, 1993.

Kemp, Peter. "Disturbed by the Length of the Recession", in: *Japan and the Middle East, MEED Special Report*, Vol. 39, No. 50, 1995.

Kishino, Hiroyuki. *The Persian Gulf Crisis and Japan's Role*, International Institute for Global Peace (HGP) Policy Paper, Tokyo, 1990.

Koyama, Shigeki. "Conditions in the Middle East Today and Japan's Economic Aid", in: *Japan Review of International Affairs*, Vol. 7, No. 2, 1993.

Maswood, S. Javed. "Japan and the Gulf Crisis: Still Searching for a Role", in: *The Pacific Review*, Vol. 5, No. 2, 1992.

Panda, Rajaram. "Japan and the Gulf Crisis: An Appraisal", in: *India Quarterly*, Vol. 47, No. 3, 1991, pp. 1-20.

Purrington, Courtney and K., A. *Tokyo's Policy Responses During the Gulf Crisis*, The Regents of the University of California, 1991.

Schaede, Ulrike. "Economy", in: *The Far East and Australia 1998* (29<sup>th</sup> edition), Europa Publications 1997.

Shaoul, Raquel. "Japan's New Approach Toward the Middle East and Its Impact on the Japan-China Balance of Power".

### Recommended Further Reading

Arab Thought Forum and National Institute for Research Advancement: Arab-Japanese Dialogue (2<sup>nd</sup> and 3<sup>rd</sup> Arab-Japanese Dialogue Conference, Tokyo, 1991 and Amman, 1992). NIRA, 1993.

Ash, Toby. "Japan and the Middle East", in: *MEED*, Vol. 41, No. 48, 28 Nov. 1997, pp. 7-15.

Calabrese, John. "Japan in the Middle East", in: *The Pacific Review*, Vol. 3, No. 2, 1990.

Imai, Ryukichi. *The Middle East in the Coming Decade: A Japanese Perspective*. IIGP Policy Paper 85E. Tokyo: International Institute for Global Peace, 1992.

"Japan and the Middle East", in: *JIME Review* (Spring 1996), pp. 89-95.

Kemp, Peter. "Japan and the Middle East", in: *MEED*, Vol. 39 No. 50 (15 December 1995), pp. 27-40.

Kuragane, Kiyoshi, "Changes in Bilateral Trade Between Japan and the Middle East", in: *JIME Review* (Spring 1996), pp. 57-76.

Kuroda, Yasumasa. *Japan in a New World Order: Contributing to the Arab-Israeli Peace Process*. Nova Science Publishers, 1994.

*Lessons from East Asia for the Development of the Middle East in the Era of Peace*. Ed. by Y. Yafeh, E. Harari, and E. Ben-Ari, Jerusalem: Harry S. Truman Institute, 1998.

Lincoln, Edward J. (ed.). *Japan and the Middle East*. Middle East Institute, 1991.

Mallat, Chibli. *The Middle East into the 21<sup>st</sup> Century: The Japan Lectures and Other Studies on the Arab-Israeli Conflict, the Gulf Crisis and Political Islam*. Ithaca, 1998.

Matsumura, Ryuichi. "Japanese Companies Heading for a New Relationship with the Middle East", in: *JIME Review* (Winter 1995), pp. 23-38.

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## Selected Internet Sources

- Sites with a lot of information on all aspects of Japan and many links:

An excellent site is the Japan entry at the Library of Congress at <http://lcweb2.loc.gov/frd/cs/jptoc.html>

Similarly good for general overviews and information are <http://jin.jcic.or.jp/> and <http://www.ntt.co.jp/japan/index.html> and <http://www.au.af.mil/own/country/jpintl.html>

- Government sites can be found at:

<http://www.sorifu.go.jp/english/index.html>  
(Prime Minister's Office)

<http://www2.nttca.com:8010/infomofa/>  
(Ministry of Foreign Affairs)

<http://www.sangiin.go.jp/>  
(House of Councilors)

<http://www.shugiin.go.jp/index.html>  
(House of Representatives)

- On Japan's relations with the Middle East/Palestinians:

<http://www.nira.go.jp/pube/seiken/v08n06.html>

## APPENDIX D:

*Japan at a Glance*

(from the World Fact Book 1998, published March 1999)

**Geography**

*Location:* Eastern Asia, island chain between the North Pacific Ocean and the Sea of Japan, east of the Korean Peninsula

*Geographic coordinates:* 36 00 N, 138 00 E

*Area:* - total: 377,835 sq km  
- land: 374,744 sq km  
- water: 3,091 sq km

*note:* includes Bonin Islands (Ogasawara-gunto), Daito-shoto, Minami-jima, Okinotorishima, Ryukyu Islands (Nansei-shoto), and Volcano Islands (Kazan-retto)

*Coastline:* 29,751 km (no land boundaries)

*Maritime claims:* - excl. economic zone: 200 nm  
- territorial sea: 12 nm; 3 nm in the international straits - La Perouse or Soya, Osumi, Tsugaru, and Eastern and Western Channels of the Korea or Tsushi-ma Strait

*Climate:* varies from tropical in south to cool temperate in north

*Terrain:* mostly rugged and mountainous

*Elevation extremes:*

- lowest point: Hachiro-gata -4 m  
- highest point: Fujiyama 3,776 m

*Natural resources:* negligible mineral resources, fish

*Land use:* - arable land: 11%  
- permanent crops: 1%  
- permanent pastures: 2%  
- forests and woodland: 67%  
- other: 19% (1993 est.)

*Irrigated land:* 27,820 sq km (1993 est.)

*Natural hazards:* many dormant, some active volcanoes; about 1,500 seismic occurrences (mostly tremors) every year; tsunamis

*Environment - current issues:* air pollution from power plant emissions results in acid rain; acidification of lakes and reservoirs degrading water quality and threatening aquatic life; fish and tropical timber exploitation contributes to the depletion of these resources.

*Environment - international agreements:* party to: Antarctic-Environmental Protocol, Antarctic Treaty, Biodiversity, Climate Change, Endangered Species, Environmental Modification, Hazardous Wastes, Law of the Sea, Marine Dumping, Nuclear Test Ban, Ozone Layer Protection, Ship Pollution, Tropical Timber 83 and 94, Wetlands; signed, but not ratified: Desertification.

**People**

*Population:* 125,931,533 (July 1998 est.)

*Age structure:* (by years, July 1998 est.)

-0-14: 15% (m: 9,802,921; f: 9,342,254)

-15-64: 69% (m: 43,486,840; f: 43,135,979)

- 65+: 16% (m: 8,388,242; f: 11,775,297)

*Population growth rate:* 0.2% (1998 est.)

*Birth rate:* 10.26 births/1,000 pop. (1998 est.)

*Death rate:* 7.94 deaths/1,000 pop. (1998 est.)

*Net migration rate:* -0.36 migrant(s)/1,000 pop. (1998 est.)

*Sex ratio:* - at birth: 1.05 male(s)/female

- under 15 years: 1.05 male(s)/female

- 15-64 years: 1.01 male(s)/female

- 65 + years: 0.71 male(s)/female

*Infant mortality rate:* 4.1 deaths/1,000 live births (1998 est.)

*Life expectancy at birth:*

total population: 80 years

(male: 76.91; female: 83.25 - 1998 est.)

*Fertility rate:* 1.46 children/woman (1998 est.)

*Nationality:* noun: Japanese - adjective: Japanese

*Ethnic groups:* Japanese 99.4%, other 0.6% (mostly Korean)

*Religions:* observe both Shinto and Buddhism 84%, other 16% (incl. Christian 0.7%)

*Languages:* Japanese

*Literacy* (definition age 15+ can read and write): total population: 99% (1970 est.)

**Government**

*Country name:* no conventional long form; conventional short form: Japan

*Government type:* constitutional monarchy

*National capital:* Tokyo

*Administrative divisions:* 47 prefectures; Aichi, Akita, Aomori, Chiba, Ehime, Fukui, Fukuoka, Fukushima, Gifu, Gumma, Hiroshima, Hokkaido, Hyogo, Ibaraki, Ishikawa, Iwate, Kagawa, Kagoshima, Kanagawa, Kochi, Kumamoto, Kyoto, Mie, Miyagi, Miyazaki, Nagano, Nagasaki, Nara, Niigata, Oita, Okayama, Okinawa, Osaka, Saga, Saitama, Shiga, Shimane, Shizuoka, Tochigi, Tokushima, Tokyo, Tottori, Toyama, Wakayama, Yamagata, Yamaguchi, Yamanashi.

*Independence:* 660 BC (traditional founding by Emperor Jimmu)

*National holiday:* Birthday of the Emperor, 23 December (1933)



*Constitution:* 3 May 1947

*Legal system:* modeled after European civil law system with English-US influence; judicial review of legislative acts in the Supreme Court; accepts compulsory ICJ jurisdiction, with reservations

*Suffrage:* 20 years of age; universal

*Executive branch:*

- chief of state: Emperor AKIHITO (since 7 Jan. 1989)

- head of government: Prime Min. Ryutaro HASHIMOTO (since 11 Jan. 1996)

[note: an acting prime minister - determined upon a rotational basis - serves when the Prime Minister is out of the country]

- cabinet: appointed by the Prime Min.

*Elections:* none; the emperor is a constitutional monarch; the Diet designates the Prime Min.; the constitution requires that the Prime Min. must command a parliamentary majority, therefore, following legislative elections, the leader of the majority party or leader of a majority coalition in the House of Representatives usually becomes Prime Min.

*Legislative branch:* bicameral Diet or Kokkai consists of the House of Councilors or Sangi-in (252 seats; one-half of the members elected every three years - 76 seats of which are elected from the 47 multi-seat prefectural districts and 50 of which are elected from a single nationwide list with voters casting ballots by party; members elected by popular vote to serve six-year terms) and the House of Representatives or Shugi-in (500 seats - 200 of which are elected from 11 regional blocks on a proportional representation basis and 300 of which are elected from 300 single-seat districts; members elected by popular vote to serve four-year terms)

*Elections:* House of Councillors - last held 23 July 1995 (next to be held July 1998); House of Representatives - last held 20 Oct. 1996 (next to be held by Oct. 2000)

*Election results:* House of Councilors - percent of vote by party - NA; seats by party - LDP 110, NFP 56, SDP 38, JCP 14, Sakigake 3, others 19, independents 12; note - the distribution of seats as of April 1998 is as follows - LDP 118, DPJ 41, Komei 24, SDP 21, JCP 14, Liberal Party 12, Sakigake 3, Reform Club 3, others 14, vacancies 2; House of Representatives - percent of vote by party - NA; seats by party - LDP 240, NFP 142, DPJ 52, JCP 26, SDP 15, Sun Party 10, others 15; note - the distribution of seats as of April 1998 is as follows - LDP 261, DPJ 93, Liberal Party 40, New Peace Party 37, JCP 26, SDP 15, Reform Club 9, Sakigake 2, others 17.

*Judicial branch:* Supreme Court, chief justice is appointed by the emperor after designa-

tion by the cabinet, all other justices are appointed by the cabinet.

*Political parties and leaders:* Liberal Democratic Party (LDP), Ryutaro HASHIMOTO, president, Koichi KATO, Sec.-Gen.; Social Democratic Party (SDP), Takako DOI, chairperson, Tadatoshi AKIBA, Sec.-Gen.; Sakigake (Harbinger), Akiko DOMOTO, chairperson, Hiroyuki SONODA, Sec.-Gen.; Democratic Party of Japan (DPJ), Naoto KAN, leader, Tsutomu HATA, Sec.-Gen.; Japan Communist Party (JCP), Tetsuzo FUWA, chairman, Kazuo SHII, Sec.-Gen.; Komei, Toshiko HAMAYOTSU, chief; Liberal Party, Ichiro OZAWA, president, Takeshi NODA, Sec.-Gen.; New Peace Party, Takenori KANZAKI, leader, Tetsuzo FUYUBASHI, Sec.-Gen.; Reform Club, Tatsuo OZAWA, leader, Katsuyuki ISHIDA, Sec.-Gen.

note: subsequent to the last legislative elections, the New Frontier Party (NFP) disbanded; the Sun Party was formed by former NFP members, but later disbanded; the DPJ was formed by former members of the SDP and Sakigake and, in April 1998, was joined by three additional parties which had formed after the NFP disbanded; Reform Club, New Peace Party, and Liberal Party were formed in January 1998 after the NFP disbanded.

*International organization participation:* AfDB, AG (observer), APEC, AsDB, Australia Group, BIS, CCC, CE (observer), CP, EBRD, ESCAP, FAO, G-2, G-5, G-7, G-8, G-10, IADB, IAEA, IBRD, ICAO, ICC, ICFTU, ICRM, IDA, IEA, IFAD, IFC, IFRCs, IHO, ILO, IMF, IMO, Inmarsat, Intelsat, Interpol, IOC, IOM, ISO, ITU, MTCR, NEA, NSG, OAS (observer), OECD, OSCE (partner), PCA, UN, UN Security Council (temporary), UNCTAD, UNDOF, UNESCO, UNHCR, UNIDO, UNITAR, UNRWA, UNU, UPU, WFTU, WHO, WIPO, WMO, WTO, WTrO, ZC

*Flag:* white with a large red disk in the center (representing the sun without rays)

## Economy

*Economy-overview:* Government-industry cooperation, a strong work ethic, mastery of high technology, and a comparatively small defense allocation (ca. 1% of GDP) helped Japan advance with extraordinary rapidity to the rank of second most powerful economy in the world. One notable characteristic of the economy is the working together of manufacturers, suppliers, and distributors in closely-knit groups called *keiretsu*. A second basic feature has been the guarantee of lifetime employment for a substantial portion of the urban labor force; this guarantee is eroding. Industry, the most important sector of the economy, is

heavily dependent on imported fuels and raw materials. The much smaller agricultural sector is highly subsidized and protected, with crop yields among the highest in the world. Usually self-sufficient in rice, Japan must import about 50% of its requirements of other grain and fodder crops. Japan maintains one of the world's largest fishing fleets and accounts for nearly 15% of the global catch. For three decades overall real economic growth had been spectacular: a 10% average in the 1960s, a 5% average in the 1970s, and a 4% average in the 1980s. Growth slowed markedly in 1992-95 largely because of the aftereffects of over-investment during the late 1980s and contradicting domestic policies intended to wring speculative excesses from the stock and real estate markets. Growth picked up to 3.9% in 1996, reflecting stimulating fiscal and monetary policies as well as low rates of inflation, but in 1997 growth fell back to 1%. As a result of the expansionary fiscal policies and declining tax revenues due to the recession, Japan has one of the largest budget deficits as a percent of GDP among the industrialized countries. The crowding of habitable land area and the aging of the population are two other major long-term problems.

**GDP:** (1997 est.)

- purchasing power parity: \$3.08 trillion
- real growth rate: 0.9%
- per capita purchasing power parity: \$24,500
- composition by sector: agriculture: 2%; industry: 41.5%; services: 56.5% (1995)

**Inflation rate** - consumer price index: 1.7% (1997)

**Labor force:** - total: 67.23 million (March 1997)

- by occupation: trade & services 50%, manufacturing, mining & construction 33%, utilities & communication 7%, agriculture, forestry & fishing 6%, government 3% (1994)

**Unemployment rate:** 3.4% (1997)

**Budget:** - revenues: \$497 billion

- expenditures: \$621 billion, incl. capital expenditures (public works only) of ca. \$72 billion (FY98/99 est.)

**Industries:** among world's largest and technologically advanced producers of steel and non-ferrous metallurgy, construction and mining equipment, heavy electrical equipment, motor vehicles and parts, electronic and telecommunication equipment, machine tools, automated production systems, locomotives and railroad rolling stock, ships, chemicals; textiles, processed foods.

**Industrial production growth rate:** 4.3% (1997)

**Electricity:** (1995)

- capacity: 199.878 million kW
- production: 930.55 billion kWh (1995)
- consumption per capita: 7,414 kWh

**Agriculture:** products: rice, sugar beets, vegetables, fruit, pork, poultry, dairy products, eggs, world's largest fish catch of 10 million metric tons in 1991

**Exports:** - total value: \$421 billion (f.o.b., 1997)

- commodities: manufactures 96% (incl. machinery 50%, motor vehicles 19%, consumer electronics 3%) partners: US 27%, Southeast Asia 17%, EU 15%, China 5%

**Imports:** - total value: \$339 billion (c.i.f., 1997)

- commodities: manufactures 54%, foodstuffs and raw materials 28%, fossil fuels 16%
- partners: US 22%, Southeast Asia 15%, EU 14%, China 12%

**Economic aid:** donor: ODA, \$8.3 billion (1998 est.; ODA and OOF commitments 1970-94 = \$174 billion)

**Currency:** yen/¥ (Jan. 1998: ¥ per US\$1=129.45)

**Fiscal year:** 1 April—31 March

## Communication & Transportation

**Telephones:** 64 million (1987 est.)

**Radios:** 97 million (1993 est.)

**Television broadcast stations:** 12,350 (1 kW or greater 196)

**Televisions:** 100 million (1993 est.)

**Railways:** total: 23,670.7 km

**Highways:** total: 1.16 million km

**Waterways:** about 1,770 km; seagoing craft ply all coastal inland seas

**Pipelines:** crude oil 84 km; petroleum products 322 km; natural gas 1,800 km

**Ports and harbors:** 21

**Merchant marine:** total: 738 ships (1,000 GRT or over); note: Japan owns an additional 1,534 ships (1,000 GRT or over), which operate under the registries of other countries (1997 est.)

**Airports:** 167 (1997 est.)

**Heliports:** 14 (1997 est.)

## Military

**Military branches:** Japan Ground Self-Defense Force (Army), Japan Maritime Self-Defense Force (Navy), Japan Air Self-Defense Force (Air Force)

**Military age:** 18 years

**Military manpower:** (1998 est.)

- availability: males age 15-49: 31,105,541
- fit for military service: males: 26,778,356
- males reaching military age annually: 808,846

**Military expenditures:** \$48.5 billion (FY96/97) or 1 percent of GDP (FY96/97)

### Transnational Issues

International disputes: islands of Etorofu, Kunashiri, Shikotan, and the Habomai group occupied by the Soviet Union in 1945, now administered by Russia, claimed by Japan; Liancourt Rocks (Takeshima/Tokdo) disputed with South Korea; Senkaku-shoto (Senkaku Islands) claimed by China and Taiwan.

