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Japan 2000: The Dangers of Demonization

by William W. Grimes

I recently came across a poster on campus for a program called “Japan 2000.” It turned out to be for a homestay program in Hakodate, but for a moment I was transported back to 1991. In October of 1990, the CIA sponsored a small weekend conference on the growing Japanese economic threat at the Rochester Institute of Technology. In June 1991, the rapporteur’s draft report, “Japan 2000: DEFCON 1,” mysteriously leaked to the press. Though it was never published, copies circulated throughout the policy and academic communities.

Japan 2000: DEFCON 1 was alarmist (DEFCON 1 is military jargon for a state of war) and scurrilous: two of the four non-governmental members publicly disavowed it, as did the CIA. Needless to say, its prediction of an all-out struggle for economic dominance have not held up. Nonetheless, it was based on some common fallacies that persist to this day.

Japan 2000 accepted without question the idea that Japanese business was directed in a hyperrational manner by the state, particularly by MITI. (“At the heart of their success can be found a group of no more than 40-50 Japanese career bureaucrats who are key administrators and policy makers.”) It suggested that the Japanese political economy was one big conspiracy in which all economic and societal actors were working towards the single goal of Japanese economic preeminence. And it argued that economic strength would likely be rapidly transformed into a comprehensive drive for global dominance.

Much of the analysis reflected classic racist views. (The author actually even tried to defend his analysis by saying, “we all know Japanese citizens who are gentle, soft spoken, delightful, artistically talented people.”) It also suggested a post-Cold War need to perceive a new global enemy. Such issues do not reflect well on the writer or on American society, but they are hardly specific to US-Japan relations.

Of more lasting concern is the outdated “Japan, Inc.” line of thought. Nowadays, no one worries that Japanese bureaucrats have transcended economic rationality. Quite the opposite. But far too much discussion still focuses on Japan’s bureaucracy as the central force in an economy described by Japan 2000 as a “highly functional aggregation of organizations run by practiced, competent, philosophically homogeneous government bureaucrats and industrialists.”

The bureaucratic leadership fallacy has pernicious effects on its adherents’ actions. Consider for example the false dichotomy that bureaucrats are bad and politicians are good. Who can forget the early Clinton administration’s embarrassing efforts to carry out economic negotiations with the Hosokawa government based on that simplistic understanding? But in many areas, it has been bureaucrats, not politicians, who have been at the forefront of liberalization. And most commonly, politicians, bureaucrats, and the winners and losers in a given industry are divided among themselves in their efforts to expand their own shares of markets, favors, and the public purse.

Second, the assumption that policy is the only thing that matters in Japanese economic practice has led to wasted time and effort. A classic example is negotiation to reduce the exclusionary effects of keiretsu corporate groups. The most important factor in weakening such groups has actually been changes in competitive conditions caused by the high yen, the long recession, and the indirect effects of financial deregulation. Financial deregulation has been driven primarily by deregulation in the U.S. and Europe, while the high yen and recession have largely been the result of policy mistakes made by the Japanese government without much help from U.S. negotiators.

Perhaps the most dangerous aspect of all was the way the Japan 2000 model posed the Japanese economy as an enemy: “Our adversary has artfully refrained from bellicose activity until they [sic] attained a sufficiently powerful position to be immune from retaliation.” This is a profoundly dangerous way of looking at competition. Fortunately, U.S. businesses over the last decade have seen through this illusion, and have increasingly set up mutually beneficial alliances with Japanese companies. (One is less convinced that Capitol Hill has absorbed the lesson.)

Looking back at Japan 2000 after nearly a decade, it is easy to be smug. But some of its core analysis is alive and well today, if in a different form. Unless we reject a manichaean vision of Japanese politics and economy, we are likely to both overestimate and underestimate Japanese economic challenges. More generally, the report’s paranoid attitude – which was not much more exaggerated than mainstream analyses and proposals of the time – should also remind us of the dangerous potential for turning economic competition into broader confrontation.

William W. Grimes is currently a Visiting Assistant Professor of Government at Harvard University. This article appeared in the January 31,2000 issue of The Japan Digest *and is reprinted with permission.*

1001 Bishop Street, Pauahi Tower, Suite 1150, Honolulu, HI 96813 Tel: (808) 521-6745 Fax: (808) 599-8690
Email: pacforum@hawaii.rr.com Web Page: www.csis.org/pacfor