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Japan's Soft power

An unsustainable policy?

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Abstract

This thesis deals with Japans role in the international system. An argument is presented in this thesis, namely that Japan is free riding on other countries when it comes to its national security, The Japanese miracle is also dependent on a liberal world order upon which it contributes nothing to maintain.

However Japan definitely has some influence in the international system through its soft power resources. Japan thus exercises its soft power in order to get away with its free riding. The most frequently used soft power is its financial resources aimed at various aid programs and the financing of international organizations Japan is for instance the second largest contributor to the UN. However changes have occurred in the last couple of years and this thesis suggests that the present free riding will inevitably back clash.

Keywords: Japan, Soft Power, Free ride, Liberalization, De-regulation

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1.Introduction

It is hard to imagine that Japan only fifty years ago was a pariah in the world economy. Devastated by the defeat in World War II, the country needed to get back on its feet. A policy known as "gdp: ism" emerged and triumphed. The country got back on its feet and became a major economic power in the eighties and seventies. This reign however abruptly ended in the early nineties when the equity and real estate market collapsed.

Shifts in the international system, the most prominent being the end of the cold war, has forced Japan to rethink it's position in the international system.

But changes have a tendency to come slow in Japan and it didn't really take the questions seriously until it was heavily criticized for their cheque book diplomacy during the first gulf war, Japan was one of the wars greatest financifiers, but the contributed nothing in military terms even though the country has the worlds seventh largest army, although it is not an army *per se* as the self-defense forces are not permitted by the constitution to be deployed abroad. The 1947 constitution was drafted after Japans defeat in world war two to prevent the country from resurgng its former militarism.

Despite this constitutional dilemma Japan managed to "stretch" its constitution and deployed some non-war faring troops in the present Iraq war. Japan has realized that it needs to play a more active role in the international system not to lose the power it has attained.

This thesis will deal with Japanese power, what it is? And why it failed so miserably to utilize this power. The country has all the prerequisites to be a major power in realist terms. A strong if yet presently weakened economy, a large and technically advanced war machine and a large population. Japan has a larger defense budget than that of the UK. But still it doesn't use it; Japan is essentially free riding on the United States regarding its military security.

The issues about Japans "inactive army" isn't widely debated in mainstream media, but the country's economic impact is. The Japanese economy is indeed large and powerful it's is still the worlds second largest, Japans combines household assets exceeds 16 trillion US dollars. The Japanese miracle has to a large extent been dependent on its large companies (with comprehensive government support). Companies such as Honda, Toyota and Sony are widespread in the occidental world. It has been relatively easy for Japanese companies to establish themselves in international markets; the outflow of Japanese FDI (Foreign Direct Investment) is massive. However the case is not the same for companies wishing establish them selves on the Japanese market. Off course McDonalds and Starbucks exists but this doesn't really give a true picture. It is relatively hard for foreign companies to get a foot in the Japanese market due to various impediments that will de dealt with later in the thesis. Ultimately Japan is free riding on the liberal world order. The Japanese miracle is dependent on this order but Japan contributes nearly nothing to

maintain it even though it has the power to do so. The same can be said about its current security situation as the country is defended by the US.

If we look at these issues it is evident that Japan is free riding. Thereby Japans reluctance to wield its hard power makes it a soft power. The main questions in this thesis will therefore be:

How does Japan manage to free ride the international system? This free riding makes it unnecessary for Japan to wield any hard power; instead it utilizes its soft power. The question therefore becomes relevant about this soft power, and how Japan wields it? And how can we explain its lack of hard power even though it possesses the prerequisites? In order to answer these questions first of all I will deal with the philosophical problem of free riding and then apply the neo-liberal idea of soft power, which was coined by Joseph Nye.

2. Methodological discussion

This thesis is a theory utilizing case study about Japans position in the international system, its ability to contribute but foremost its inability to contribute to this system in hard power terms.

In order to investigate this I will apply the philosophical argument about free riding, through out this thesis there is an argument that Japan compensate this free riding through massive soft power resources. Therefore Joseph Nye's theory of soft power will be applied to describe these "compensations". The questions in this thesis will thus be:

How does Japan manage to free ride the international system? This free riding makes it unnecessary for Japan to wield any hard power; instead it uses its soft power. The question therefore becomes relevant about its soft power, how does Japan wield its soft power? And how can we explain its lack of hard power even though it possesses the prerequisites?

2.2 Material

Throughout this thesis second hand material from various fields will be used, primarily books by Japan scholars such as Peter Katzenstein and Chalmers Johnson. Regarding the theoretical part Josephs Nye's book "Soft Power the way to succeed in international politics" will be used. Finding material regarding the free rider argument has proven more difficult than one imagines. The Stanford encyclopedia of philosophy will be the primer reference regarding the argument.

Finding accurate material about contemporary Japan has proven even more difficult, there is a rather massive discourse available from the mid nineties but not much published in the 21st century. I want the reader to know this early on as many of the events described took place more than ten years ago. This lack of up to date material is due to the academic community's shift of interest. Academia has in recent years shifted its focus towards the Chinese "miracle".

3. Theoretical discussion

An argument in this thesis is that Japans complete unwillingness to utilize its hard power resources makes it a soft power. Nye (2004) the forefather of the soft power theory means that there is interplay between the two different powers; soft power is really just a complement to hard power. Japans inability to utilize its hard power makes it a free rider as it dependent on the hard power of the United States.

Therefore this thesis main theory will be Joseph Nye's theory about soft power, but as the free rider issue is an integral part of the thesis arguments it will be described as an important part of the theoretical arguments even though it is not a theory *per se* it is more philosophical problem/argument. The analysis part of the thesis will start with the free rider perspective as it through its soft power that it becomes soft power only state.

3.1 The free rider issue

The free rider issue is quite simple; it is basically about a lacking ability regarding collective action. If somebody else can do the thing for you why should you bother to do it? For instance as is the case in this thesis if every country liberalizes it's market and you can gain from they're collective effort why should you liberalize your market when you can keep the market closed and thereby building up you sectors without have to worry about foreign competition. Either or you can still use benefits of liberalization on foreign markets.

The same arguments can be applied when talking about defense, if another country will protect you, why should you risk your own countrymen when somebody else is willing to die for you. Inevitably such behavior won't last forever as its foul play befitting from others collective effort without contributing to them. When this system isn't accepted anymore a backfire occurs (Stanford encyclopedia).

3.2 Soft power

Soft power is a theory in political science coined by Harvard professor Joseph S. Nye. It is basically, as the name applies, about power and its use in the international system. Power is a relatively hard thing to define and measure but nonetheless real. The most excepted definition of power is that it is the ability to influence others to do what you want. Then in realist terms power would be the capabilities or resources that can influence outcomes. This is why such variables as population and military matter greatly when one define power from a realist standpoint (Nye 03:03). If we define power in this way, it is off course quite easy to measure. But if one applies this narrow definition one is bound to encounter problems, as there is a paradox in the fact that actors with the ability to produce “power” doesn’t necessarily get what they want, thus power resources are not as tangible as money. What wins one scenario doesn’t necessarily win another. Thus having power resources does in no way guarantee getting the outcomes you want. This clearly shows how power can’t be assessed without knowing the context (ibid 4). Hard power isn’t the only mean to use in the international system soft power is a plausible alternative. It is basically about getting the outcomes you want without using tangible threats or pay-offs. Soft power primarily rests on the ability to shape the preferences of others (Ibid 5).

Politicians have long understood the importance of this ability, the ability to attract others to ones cause. To define it short: if my behavior is determined by an observable but intangible attraction i.e. various values or cultural norms - soft power is at work.

This way of influencing international opinion through soft power is a key feature of Japans behavior in the international system. But there are different kinds of soft power and different ways of wielding it. Nye makes the following classification:

| | Hard | Soft |
|-----------------------|-------------------------------------|---------------------------------------|
| Spectrum of behaviors | Command, coercion, inducement | Agenda setting, attraction co-opt |
| Most likely resources | Force sanctions, payment and bribes | Institutions, values, culture polices |

(Ibid 8)

Due to the nature of this thesis very little focus will be put on the hard power spectrum. However the soft power variables needs to be described more in-depth.

As we see in the above chart a country’s soft power primarily rests on three different resource variables, namely its culture, it political values and its policies, in the context of this thesis foreign policies regarding various “soft” issues would be the most adequate definition of what constitutes a “soft” policy.

Let’s start with culture, Japans cultural traits has made great impact not only occidental world but also the oriental, this will be dealt with later in the analysis. The notion of culture is off course widely contested in social sciences, there is a large debate how to

define this term. In this thesis Josephs Nye's definition will be used: "culture is set of values that creates meaning for a society (Ibid 12).

When a culture includes universal values and its policies promotes these values and interests that others share, it increases the ability to get ones desired outcomes.

Government policies are another way of exercising ones soft power. For instance the government policies that has resulted historical "misgivings" affects a country's international soft power. Government policies can increase or decrease a country's standing (soft power). A policy that appears to be hypocritical, narrow or indifferent leads to a decrease (Ibid 14). In Japans case the country's inability to deal with its WW2 history is an example of government policies that decreases the country's soft power in an international sense, but maybe foremost in a regional sense.

There is an ever-ongoing interplay between hard and soft power because one can't exist without the other. Sometimes they coexist in interference with each other sometimes in reinforcement. A country that courts popularity is usually skeptical to use its hard power, this argument has some bearing when we are talking about Japan, as will be described later.

No country likes to be manipulated by another, may it be from hard or soft power. And throughout history states have joined together to balance and limit the power of the stronger state that threatens them. But not always. Sometimes the weaker states join with the stronger power. Especially if this stronger country can use its military might to persuade other countries to join its cause. But there are other sticks and carrots to use in this influencing process. Money or aid is one (Ibid 28). This will be dealt with later in the analysis Japan is a big donor when it comes to international aid but also in FDI which saw a big increase after the plaza accord in 1985. This is a way for Japan to utilize its soft power, even though money according to Nye is a hard power variable it is in this thesis seen as a kind of quasi-soft power variable, as the money, in Japans case, usually is used to various soft power initiatives; such as Overseas development aid and various conferences dealing "soft issues" such as global warming etc, it is no coincident that the international protocol regarding greenhouse gas emissions was signed in Kyoto. This exemplifies how Japan uses it financial means to get away with its lacking international effort (in realist terms) the examples are numerous. For instance it is the second largest financial contributor to the United Nations. It was the premier financial contributor (13 billion US dollar) in the gulf war (Yamakage 97:284). This enabled them to avoid sending troops to Kuwait. Overall this policy was successful even though Japan was criticized after the first gulf war, this criticism soon faded away. Soft power is an interesting theory and some of it adherent followers mean that it is an ability that will gain more and more importance when it comes to the international agenda setting. The importance of soft power will probably increase even more as the globalization process escalates and cultural resources increase in importance.

4. Analysis

4.2 The free rider perspective

It is in this thesis assumed that Japan is free riding, and that this free riding makes it a “soft power only”, thus the free rider issue will be dealt with first.

In this thesis two free rider areas will be dealt with: Japan in the international trading regime, and Japan's defense policy. The defense issue will be addressed first.

According to the international institute for strategic studies the Japanese defense force is the world's seventh largest army and has the world's fifth largest defense budget in the fiscal year 2003 their budget was 422.85 million dollars equaling one percent of the country's GDP (www.Mofa.go.jp)

This is a massive hard power resource that is hardly ever used; some skeptics even consider it a waste of Japanese taxes.

The reason that this massive resource is in an ever-ongoing standby is due to the Japanese constitution, which in article 9 states that Japan cannot send troops abroad. Even though the constitution has been a bit “stretched” post 9/11 things are still more or less the same. Japan's free riding is a big concern for many countries but the issue is hardly discussed since Japan contributes in the international system economically and thereby, in lack of a better word, outsource its hard power obligations to others, primarily the United States but also on other countries in the Pacific basin that takes their responsibility about regional peace and stability seriously (Johnson 95:266).

The Japanese defense situation is dependent on the United States, therefore Japan's relations with the US are prioritized; bilateral cooperation with the US is a norm in Japan's foreign policy. At the core of this argument lies the US-Japan security treaty from 1951 (Cornelis 2005:3). This document is crucial as it defined the role of Japan for decades to come. It shaped Japan's “follow the leader” policy with the US, and thus the starting point of Japan's “passive” foreign policy. The foreign policy reliance on Washington made it impossible for Japan to have an independent foreign policy, thereby hindering its ability to shape international events according to their own preferences. The priority for Japan was not to act, but to respond to the other countries; mainly the US as Japan's security and foreign policy is heavily coordinated with the US global strategy. According to Yamakage the Japanese themselves see their country as a small country no matter the size or global impact of its economy. Japan has always been aware that its prosperity is in no way guaranteed even if its military security isn't threatened. To put it differently economic security is not a function of military security (Yamakage 97:277).

Some may argue that such a relationship with the US is unbeneficial for Japan, this is however not the case. Without its close ties to the US Japan wouldn't be the country it is

today, the country's protégé status with Washington brought many benefits. The primer of these being sustainable peace and democracy, and secondly but nonetheless importantly, it brought the country unprecedented economic growth (Cornelis).

In the postwar period Japan avoided political engagement by promoting "economism" or "GNP-ism". But the country's rise to economic powerhouse wouldn't have been possible without the security umbrella from Washington, as it allowed Japan to focus on non-military spending. And thereby enabled them to become the economic superpower that it is today.

During the cold war Japan was a key ally in with the western world. The end of the cold war was undoubtedly the most important shift in the post World War II international political economy. The End of the Cold war forced a re-evaluation by states concerning their position in the international system, with the Soviet threat no longer imminent, regional interaction became the primary mean for states to seek influence at a global level. For East Asia this led to the realization that each states' own welfare depended on the stability and prosperity of neighboring countries (Stubbs & Reed, 2006:289)

The end of the cold war allowed Japan to broaden its security policy options (Yamakage 97:287). Although the alliance with the United States remained the top priority, Japan began to mould a security policy outside the US-Japan alliance framework. The Japanese government envisaged a more active role for Japan in the international community. Japan has thus become more assertive on security related issues. The Takeshita cabinet sought to lie out political and economic agendas through which Japan promoted global peace and prosperity. These measures were laid out in the three pillars of Japans international cooperation:

- (1)Contribution to international peace
- (2)The promotion of cultural exchange for mutual understanding
- (3)Expanding the ODA (overseas development aid) (ibid)

It soon became clear that these measures were to be channeled toward the ASEAN, as the Asia pacific became the key area were Japan tried to gain influence. As we see these measures are all "soft". In the early nineties there was a widening debate about Japans role in the international system. Japan was in a way dissatisfied with its role as an "economic powerhouse". Japan managed to send peacekeeping troops to Cambodia and Mozambique, although under UN flag, critics called these efforts shenanigans.

The desire on Japans behalf to become a major power was revealed in the foreign policy of the new Miyazawa cabinet in 1991¹. Miyazawa tried to construct a new Asia pacific policy and thereby shaping a more consistent policy toward it's neighbors as Japans regional policy had lost some clarity due to the entwinement of the political and

¹ Through out this thesis you will notice that prime ministerial cabinets change fast in Japan. Japans Domestic political structure is rather different from what we are used to in the west. Prime ministers change frequently without elections; this is because the LDP consists of numerous factions competing for the prime minstrel post. The system is very interesting but it is a whole new thesis if it were to be described more in-depth. Have this in mind as you read on about various cabinets.

economic affairs. Even though Japan tried to mould a more active foreign policy after the cold war, it was not striving for independent activism (Yamakage 97:205). The search for a new role was always coordinated with the US, as the US-Japan alliance was seen as a mean to allay any misgivings about a possible resurgence of Japanese militarism in the East Asian region. The US-Japan alliance is seen as stabilizer in the region as it makes it almost impossible for Japan to resurge its former military imperialism.

Japan's official stance regarding security is that it depends both on economic and military factors, but as the economic factors far outweigh the military factors in Japan's case, the notion of security becomes blurry (ibid 98). Some of Japan's leading policy makers and business leaders see a dilemma between "Japan and Asia" and "Japan and the US". There is no real need for Japan to choose either or, but it does ask for a policy shift regarding which issues to be emphasized. During the cold war the two policies were compatible. Those who argue for the US policy see a world full of conflict, and therefore Japan's security interests are best protected through a military alliance with the United States.

Those favoring the Asia first policy argue that Japan is too dependent on the United States, economically or politically and sometimes both, and therefore the country's policies should be shifted towards the Asian region.

According to Kataoka (1993) the agreement between the US and Japan in the alliance regarding Japan's national security is anything but a relationship between equals. It requires the United States to come to the aid of Japan if it is attacked but it requires nothing of the Japanese. There are of course Japanese policy makers who do not want a real alliance with the US, as it would require the use of hard power. But what is much more unknown is that there are many American policy makers who don't want a real alliance either. They like the current arrangements where Japan is clearly guided by the US state department and the pentagon regarding its foreign policy. This is what some call Japan's reactive foreign policy. Some US officials favor this policy; they are more attracted to Japan's soft power policy favoring an increase in the ODA. This might be due to the fact that Japan paid large proportion of the Gulf War and the US received the credit, thereby increasing its own soft power (Johnson 95:269).

It is sometimes hard to understand controversy regarding the Japanese army's being or not being. But Johnson goes to the length of calling it a dilemma. Even if the defense budget is large this is mainly due to the high GDP of Japan. For instance if one compares Japan's defense budget with that of Taiwan in relation to GDP percentage being allocated to defense, it is clear that Japan doesn't take its regional responsibility, and if we compare it internationally with for instance the defense budget of the UK and France. It is clear that Japan doesn't take its international responsibility either.

Also the bureaucracy of this rather massive war machine is completely inept; the ratio of officer and non commissioned officers is ridiculously high, ultimately making it a rather sluggish organization (ibid 267f).

However the notion that Japan is taking a free ride regarding its defense needs to be taken under further scrutiny. Most would assume that since Japan is taking a free ride, primarily on the United States, Japan's security would thereby be paid by American tax

dollars. This is a misleading and ultimately wrongful assumption. For instance Johnson argues that at the peak of the cold war in the early and mid eighties the US defense budget in 1985 was 209 billion US dollars, the deficit for the same period was 177 billion. In the first half of the eighties the Americans consumed more than they produced and they paid the difference by borrowing from foreigners. Japan alone borrowed out almost 50 billion since high interest rates promised high returns. Japan could therefore argue that it wasn't at all free riding since she paid almost a fourth of the US total defense burden (ibid 269f).

Another objection sometimes heard is that the US is as alarmed as Asian nations regarding a possible Japanese military buildup, instead what the American want is that Japan buys more planes from America in order ease the trade deficit between the two. But in way a way this only exemplifies how Japan in fact is buying up its own shortcomings. Using its vast financial resources to free ride.

4.3 Japan in the international trading system

As mentioned in the introduction to this thesis Japans success has much to do with its large corporations such as Sony and Toyota. Japanese officials by no way neglect this. In a speech in the diet in 1993 former prime minister of Japan Kiichi Miyazawa made this quite clear:

“Japans economic development owes much to the maintenance of the international free trading system, and there can be no disagreement with the idea that the maintenance of this free trading system is a prerequisite to continued economic development not only in Japan but world wide...”(Miyazawa in Cortell & Davis 03:17f)

The statement is by some considered to be just empty words. Sony chairman Akiko Morita, among others, calls the Japanese trade policy a fortress. If there is an actual free riding in the global economy by Japan, how does it make/take this free ride and what does the WTO do about it and what is Japans relationship with this organization?

First of all the trade deficit between Japan and its major trading partners like the EU and the US has always been unbalanced. Japan has always had a surplus and its partners a deficit; this is a regularly debated issue.

When it is hard for a company to gain entry to a foreign market that country is considered to be protectionist, which is the opposite of being liberal. I will use Gilpins definition of liberal:

“Liberalization has traditionally meant the implementation of the basic principles and objectives of the GATT, that is, simply the removal of formal and external trade restrictions and, under certain circumstances, giving foreign firms “National Treatment”-treating them as if they were national firms and hence in a non discriminatory manner”(Gilpin 390).

In today's global economy liberalism is a key word, and there is controversy between an oriental and occidental definition of the term. If we measure Japan's salience to the norm of liberalization it is evident that Japan complies. It is instead through various informal structures that the Japanese economy remains relatively closed; these "structures" will be addressed later.

It is argued by Pekkanen (2001) that this imbalance is kept intact through an aggressive legalism from Japan. When it comes to the WTO's dispute settlement system Japan has since the organization's establishment in 1995 played an active role in the implementation of the dispute settlement system. Interesting to note is that Japan was very uninterested in its predecessor the GATT (General Agreement on Tariffs and Trade) and GATS (General Agreement on Trade of Services) framework. Japan preferred to settle trading disputes bilaterally as opposed to multilaterally. The turning point came in the late eighties when Japan won over Canada in a case regarding timber. Canada claimed that Japan was levying a tariff of eight percent on Canadian exports of SPF (spruce-pin-fir) lumber while letting "like wood" products from the United States enter Japan duty free. This was according to Canada a direct violation of the MFN (Most Favored Nation) principle (Pekkanen 01:710). The WTO didn't share Canada's stance in the dispute and for the first time the dispute settlement system ruled in Japan's favor.

This "victory" changed the domestic perception of the GATT; it gained public support due to its fairness to all of its members. After the "victory" Japan turned full diplomatic attention to the Uruguay round that was the starting point for what would become the WTO, Japan was especially interested in the dispute settlement system (ibid).

Japan had realized that international legal rules could be a strategic source of national power. This strategic use is basically twofold, when the Japanese's realized the benefits of WTO rules they used these rules both as a sword but also as a shield in the global trading system (ibid 711). By shield it is meant that the WTO rules provide Japan with cover for domestic measures and institutions no matter how controversial they may appear for Japan's trading partners.

By sword it is meant that the WTO rules allow Japan to challenge foreign measures that it deems to be controversial, which is a clear step away from Japan's usual low key trade diplomacy (ibid 711).

This aggressive legalism has given Japan many notable advantages. The first and probably the most prominent one being that it has enabled Japan to say no to foreign pressures through a legal framework.

Secondly by latching on to rules as an ally in trade disputes, Japan has gained more independence in its foreign trade policy – an independence that is not as constrained by the military alliance with the US as has been the case in the past.

Thirdly the power of using international legal rules cannot be denied, as it gives Japan an aura of legitimacy concerning its trading policy.

But this aggressive legalism can also back fire, using the aggressive legalism strategy can prove costly to Japan in the future as it may be used as a distinct advantage by Japan's trading partners. Playing legal hardball with its partner's means that they too can expose controversial aspects of Japan's political economy by using the WTO framework.

This is not meant to be zero-sum game, which someone wins and someone loses. It is more about the fact that Japan's trading partners may be able to create legal obligations that Japan must comply with, as there is a distinct need of fairness for free trade to work; there can be no such thing as a semi free trade. Also Japan's WTO precedents may come back to haunt it in the future (Pekkanen 01:734).

4.3.2 The WTO agenda

As discussed in the previous section of this chapter Japan has taken a great interest in the rule-based mechanisms of the WTO. But who has gained from this aggressive legalism? To put it short: how acts and why?

There is of course no denying that states remain the most prominent actor in the international system it is the only party that the WTO framework recognizes as a proper subject. When dealing with trade of products and services there is always a supplier, usually a privately owned company, although state owned companies has gained momentum the last couple of years. The company wants the lowest tariffs possible so that their gain will be as big as possible. When we look at it this way it is evident that there is a sectoral influence on the states behavior in the WTO (Pekkanen 03:301).

The legal rules of the WTO has become an integrated feature of the global trading system, the repercussions of WTO decisions are felt all the way down to the sector part of the trading hierarchy. The legal rules of the WTO concentrates costs on import and export, organized companies operating in the domestic market; conversely confer concentrated benefits from influential export oriented sectors abroad. Whether at home or abroad, these facts ensure that the rules have the overall effect of exposing hitherto protected industries and controversial measures that can be legally questioned by the WTO, its decisions thus alter the costs and benefits of international economic exchange. In response to this, affected sectors create pressure on home states to impede or facilitate the flows of economic exchange within the dispute settlement system. It is evident that there is sector-influenced behavior in the WTO (Pekkanen 03:288). As mentioned in the introductions Japan's economic might is to a large part due to its major companies like Sony and Toyota. But before this evident correlation is described further the relationship between the Japanese state and the private sector needs to be described more in depth, as it is a bit different from the western model.

The Japanese economy is not free in a western liberal-market sense. For those who favor a liberal world market the Japanese state capitalism has a number of unacceptable practices; the state routinely intervenes in the economy, the notion of the invisible hand is more or less unheard of. The companies steer clear of the capital markets in order to have a cozy relationship with the banks²; employees enjoy lifetime contracts (although this is

² This is quite an interesting feature of the Japanese economy, most companies in post-industrial societies, has made a shift towards the more service centered sector of their

slowly changing) and consumers pay high prices without complaint. From a market-liberal perspective such a system shouldn't work, however history has showed that it does. The Question thereby becomes relevant if a liberal international economy can be sustained if it is not composed of liberal societies in the west? (Gilpin 394) In response to this there is an almost ever-ongoing academic debate about how to best characterize the Japanese economy. Many explanations have been offered but the most accepted is about the country highly mobilizing culture, the role of its government and a policy putting development before welfare. This lack of welfare has made some critics say that Japan is a rich country but with a poor population.

Sheridan (2001) argues that unaided market forces did not determine Japan's development in the past and neither should unless there is a political decision substantiating such a policy. Sheridan argues in four points:

1. Japan's government does not intervene in the economy from the outside; it's an integral part of it.
2. It is possible to identify deliberate changes in economic and national direction in the past.
3. the capacity to make such choices still exists
4. It offers a new programmatic direction

This integral role of the state in the national economy has proved awkward for market liberal economics. In a market liberal economy state intervention is an external influence, the opposite can be said about Japan's system in which it happens more or less routinely. Sheridan argues that the notion of "state economy" asserts that the state must secure the general interest of the community. Therefore national development goals are routinely translated into economic terms via this system of intervention'. This state led capitalism is usually called the developmental state, or in Japan's case: Japan inc, and it's more or less an Asian invention (Preston 2001: 106ff).

This model has proven successful in the past but the Asian financial crises of the late nineties was to some liberal economists a sign of failure by the Japanese/Asian model. It is the deregulation of this system that is the current major challenge for the Japanese economy and its companies. The latest example of this was passing the bill of a privatization of Japan's massive postal service. Which after its privatization will become the world's largest bank. If the state is an integral part of the nation's economy then it should take sectoral benefits and disadvantages in mind regarding WTO negotiations, it should be expected that states will deal with those sectors more actively that are institutionally privileged in a domestic context. Therefore there is a correlation between the domestic sector and the state's behavior in the dispute settlement system. To investigate this correlation Pekkanen (2003) looks at the complaints initiated by Japan in the WTO from 1995-2002. Measured in quantitative terms Japan doesn't use the WTO

product. Companies like GM today have massive services regarding the financing of automobiles.

system to the same extent as other advanced economies. Of the 187 complaints filed in the 95-02 period merely four percent was by litigated by Japan. Compared to 30 percent by the US and 26 percent by the EU (Pekkanen 03:290).

But an area where Japan plays an active role is when it comes to anti-dumping measures. From Japans perspective anti-dumping has long been one of the most important questions to be dealt with through the WTO framework. Agriculture is also seen as an area that needs protection, although liberalization of the agricultural sector is controversial in almost every country.

Few would argue that the WTO hasn't made a substantial impact on the way that states perceive international trade. And it is through the legal system, that it helped to develop, that Japan can keep its economy relatively closed. Not through traditional measures but through a distinct system of "informal" barriers for instance a very different distribution system and the *keiretsu* structure of business also various government's standards and testing are commonly mentioned barriers. Although these are not protectionist means *per se* it is quite evident that they cause problems for businesses. In the western business world these protectionist barriers are called "structural obstacles" (Hedlund 94: 180).

Hedlund (1994) made a short paper about the problems occurring for Swedish companies when they wanted to enter the Japanese market. The result of his study was that Swedish companies had little success penetrating the vast Japanese market due to these structural barriers. He as many others point out to cultural differences a major obstacle, some of the more severe Japan critics has argued that the Japanese language itself posts a major non tariff barrier. In such an interdependent system as the world trading system cultural barriers should not matter to the extent they do. But however it is evident that they have an impact (Gilpin 87:391). One might stretch the argument as far as to suggest that Japan is wielding its soft power from the cultural sphere. This aggressive legalism policy has proven successful as it allows the government to head off both domestic demands for increased protectionism and also head-off foreign pressure for liberalization of the domestic economy.

4.3.3 At the domestic level

One might argue that this is foul play on Japans behalf; it needs to find a balance of its demands for rule-based liberalization abroad and at the same time making provisions for the same liberalization at its domestic market. This demand is not only coming from the international scene, the government and explicitly the MITI is receiving criticisms from Japanese companies.

Japanese companies like most of the worlds MNCs (Multi National Corporations) are dependant on its offshore factories. The devaluation of the yen in the 1985 Plaza accord lead to a massive outflow of Japanese FDI, the largest recipient of this was southeast and East Asia (Doner 97:203). This new regional division of labor was seen an opportunity to keep the national economy competitive and still enable its Asian neighbors to develop

their international competitiveness. This reasoning is known as the flying geese theory of economic development. The Asian nations are in this theory considered to be a flock of geese flying in the v-shaped formation that wild geese usually do. Japan would in this formation be the lead goose leading the way for the Asian flock. Japan would pass down uncompetitive industries while remaining at the highest end of the production cycle. The idea with this policy is that Japan would be able to counter some of the more negative aspects of globalization on its domestic economy by creating a regional division of labor that would keep its economy competitive and at the same time benefiting the region as a whole (Hughes 06:447). Even though this policy started prior to the end of the cold war it shows that Stubbs and Reeds argument about regional interdependence has some bearing. If the home economy is hard to penetrate from a Japanese owned foreign factory, then the system gives disadvantages to the very sectors that it should give the advantages, namely the enterprise.

Foreign pressures made many decision makers advocate a shift in the country's trade strategy but also at the domestic level. A proponent organization advocating trade liberalization is the *Keidanren* (the Japan federation of Economic Organizations) this organization gained support as a growing number of Japanese firms increased their dependence on foreign markets and as the organization grew, so did the commitment to liberalization. The chairman of the Keidanren's committee on foreign trade described the organizations position with the following words:

"If we ignore foreign criticisms of Japan...there is a serious danger that the forces of protectionism will be set loose to destroy the liberal trading system. (Cortell & Davis 03.13)

He meant that the country was to gain advantages through a liberalization processes, as consumers would have access to cheaper products etc.

The above arguments is about Japans relations with its foreign trading partners but it can today be seen in a globalized context where Japanese MNC are more or less dependant on foreign production plants. The LDP (Liberal Democratic Party) to some extent responded to the criticisms by the Keidanren and established numerous committees to explore the possible elimination of regulations in certain sectors, ironically the Japanese trade barriers actually increased between 1985 and 1992 at a 1.4 % per annum (ibid 15).

Some scholar's attribute this to the institutional context as regulation tends to be made at the sector level between interest groups and bureaucrats, the two most likely groups to be harmed by deregulation. Charlie & Tilton suggests that "because Japanese regulation mechanisms perform so many social regulation functions, economic regulatory reform frequently has to be accompanied by the construction of compensating arrangements in other policy areas, thereby greatly expanding and complicating the issues to be tackled in realizing a given regulatory reform initiative" (ibid 16) thus complicating the processes even further.

The burst of the "bubble" economy in the early nineties revigourised the Keidanren efforts for deregulation. At the time there were 10000 rules requiring government permission or certification regarding various economic activities. In the wake of the bursting "bubble" the Keidanren suggested that deregulation was the only way to spur the

severely weakened economy. Comprehensive deregulation was deemed as crucial to the creation of an economic society truly in tune with globalization (ibid 19).

The burst of the bubble also put many practices into question and ultimately led to a general belief that overregulation had raised the costs of production, and thereby decreased Japan's competitiveness. The LDP failed miserably to rejuvenate the economy and as a result they lost the election in 1993. The first non LDP prime minister Morihiro Hosokawa established an advisory group for economic structural reform. Its president was Gaishi Hirawa, the Keidanren chairman at the time, not surprisingly they found numerous areas where deregulation was needed. In summarizing the findings in these reports Prime Minister Hosokawa concluded in a diet speech that:

“In laying the foundations for a new era of development, it is imperative that we demolish those systems and practices that are no longer compatible with the needs of the times...It is essential that we make a determined effort for economic reform and administrative reform, both for ourselves, and so that we can fulfill our responsibilities to the international community”(ibid 20).

Upon taking office in 1994 prime Minister Muruyama continued Hosokawa's deregulatory policy. From the mid nineties and onward Japan had a high level of salience towards the western notion of liberal trade. And the weight of receiving Foreign Direct Investment has been realized. This is evident today as the “invest in Japan” ad campaign is quite large in the world's leading news magazines. Steven Vogel concludes the situation quite clearly:

“The economic crisis now makes it almost impossible to oppose reform outright. Thus the natural proponents of reform may restrain their enthusiasm, but the opponents must also moderate their dissent. Farmers and unions and regulated industries must focus on shaping the terms of liberalization rather than opposing it altogether”. But even if the overall salience is widespread it is quite hard to accomplish these changes. Once again various aspects of Japan's domestic political structure play a part (Vogel in Cortell & Davis 03:21).

4.4 Japan as a soft power

As discussed previously Japan's inability to utilize its hard power resources makes it a soft power, partly in a negative sense since a balance of the two is more or less essential.

Nonetheless Japan's soft power resources are substantial even if Nye himself points out that soft power resources are intangible and therefore hard to measure.

Today Japan ranks as number one in various fields, for instance it is the world leader when it comes to registered patents, third in expenditure on research and development, and as the world's second largest book and music market. Japan has through its culture one of the largest soft power pools in the world and by far the largest in Asia.

The decade long economic slowdown hasn't decreased Japan's massive soft power pool. It has in fact grown; McCray suggests, “instead of collapsing beneath its political and

economic misfortunes, Japans global cultural influence has only grown. In fact, from pop music to consumer electronics, architecture to fashion, and food to art, Japan has far greater cultural influence today than it had in the eighties when it was an economic superpower (McGray in Nye 04:86”

Japans cultural influence on the world is indeed impressive, especially among younger generations. Playstation is today more or less and a household name found in almost every home, and the Pokemon phenomenon is truly international in scope as it is broadcasted in more than 65 countries. But Japans cultural influence is in no way limited to the pop cultural sphere. For instance the occidental restaurant scene has experienced a sushi boom. If we compare Japans soft power impact in the pop cultural realm regionally it is evident that Asia is the largest absorber of Japans popular culture. And these soft power resources allow Japan to play a kind of “soft” hegemonic role, both through it popular culture but also through its massive outflow of ODA and FDI. Through these measures Japan has a clear sense of attraction with the younger generations in Asia (Shirashi 97:235f).

But however there are limitations to Japans soft power influence. Primarily when it gets to its relations with its Asian neighbors. The suspicion that lingers among countries like China and Korea severely limits Japans soft power. For instance, in the wake of the financial crises of the late nineties Japan tried to establish an Asian monetary fund. As we can see in Nye’s chart in the theoretical part institutions are likely resources to use when one wants to wield soft power. The AMF project was heavily criticized by the United States, as it feared that such an institution would undermine the intentional monetary fund (IMF). But the project was also heavily criticized by China, as the Chinese feared that such institution would give Japan too big influence in the region (Hughes 06:460). The question of course becomes relevant if Japan really wants to play a larger role in the international system. Various opinion polls show that this is not necessarily the case if we go back to the foreign policy outlined by the Takeshita cabinet:

1. Contribution to international peace
- 2 The promotion of cultural exchange for mutual understanding
- 3.Exapnding the ODA (overseas development assistance)

These policies are widely accepted by the Japanese public as we can see in the opinion survey chart below:

Question

What do you think Japans primary role should be in the international society?

Please choose no more than two of the following:

| | |
|--|-------|
| Contribution to the maintenance of international peace, such as efforts toward the peaceful resolution of regional conflicts (includes personnel assistance) | 49.3% |
| Contribution to the solution of global – scale issues such as the global environment | 42.8% |
| Humanitarian support for refugees | 25.1% |
| Contribution to the development of the | 19.7% |

| | |
|--|-------|
| world economy | |
| International cooperation to protect universal values such as liberalism, democracy and human rights | 15.3% |

(Webjapan.com1)

As we can see there is a widespread support for the soft power foreign policy Japan is emphasizing. With personnel contribution it is meant as civilian services, such as medical personal etc. Deploying the SDF forces abroad is not something the Japanese public supports. As we can see the policies promoted are realized through financial means.

Regarding the second pillar: the promotion of cultural exchange a similar poll concluded the following:

”What kind of cultural exchange with other countries do you think focused on in promoting?”(sic!)

Please choose no more than two of the following

| | |
|--|-------|
| Sports exchange | 27.6% |
| Youth exchange | 27.5% |
| Student exchange | 18.1% |
| Introduction of contemporary Japan | 17.5% |
| Introduction of traditional Japanese culture | 15.3% |

(Webjapab.com 2)

Sports, youth and student exchanges are all related to the Japanese obsession of “internationalization”. There are numerous youth exchanges to Japan as of may 1st 2005 there were 121812 individuals residing in Japan on a pre-college or college visa (children of foreign residents are not included as they are on the “dependant visa”).

Regarding the promotion of it domestic culture this is an effective way of using ones soft power. As the interest in Japanese culture is quite wide in the western world Japan has had a number of culturally influenced events worldwide. The most recent one in our region was the Tokyo style week in Stockholm in 2004.

To show the support of the third pillar, that of ODA, a third table is not necessary.

As we can see from the first table the support for the ODA is quite spread among the Japanese public. And the Japanese ODA machine is quite massive.

A large part of the ODA is facilitated through various international organizations, in the fiscal year of 2004 Japan distributed a total of 3048.2 million US dollars through various international institutions, various UN bodies being the largest recipients.

Regarding Japans bilateral aid programs the major recipients are found in Asia, the major individual recipients are China and Indonesia. Although not a national mean the outflow of Japanese FDI has also been massive. The economic integration between Japan and the Asian region is a component of the new post-cold war Asia policy dealt with previously in the thesis.

There has been a massive economic integration occurring in the Asia pacific region the last ten years, for instance there is a massive contemporary debate about the emergence of China. Japan was one of the pioneering countries regarding FDI in the Peoples Republic of China (and Taiwan as well). Although FDI is not government mean *per se*

the case is somewhat different when it comes to Japan. As discussed previously the government influence on the Japanese economy is quite evident. Some commentator calls the system “Japan Inc”. So in a way the outflow of Japanese FDI is indirectly government policy oriented.

As we can see Japans economic impact on the region is quite massive, and this is part of an ongoing regional integration project. However this is not the kind neo- functional integration that triumphed in Europe. In Asia's case it is instead an integration of markets, as opposed to a politically institutionalized integration (Katzenstein 97:12f). In this integration Japan can due to its position in the world economy exercise a rather strong influence on the agenda setting. In the Asian region Japan can definitely exert some degree of power but it is undoubtedly soft power, as Japan is coordinating the Asian economic agenda, not the political.

Japans role as a “coordinator” was first stated by Yunigahara (1997), he defines the role as a mean to achieve:

“...an alignment of diverse interests and to form consensus, or an appearance of it at least, among the regions countries with respect through intra regional and global economic issues. ““Coordinatorship”... will be much more in tune to Japan’s domestic political culture and negotiating style. It will also be less visible than a leadership role and therefore much less likely to arouse emotional reactions from its Asian neighbors” (Yunigahara in Doner 1997:201).

Getting ones will through by using institutional frameworks are according to Nye pure soft power. When dealing with regional institutionalism, theories of regionalism are of course interesting, but there are also distinct institutional aspects of the problems dealt with. Theories of institutionalism should therefore not be ignored, especially since the neo-institutional school puts great weight on unofficial rules, which seems feasible to assume exist in this scenario. This scenario being Japans role as a coordinator exercising a “leadership from behind”.

One of the core features of the neo-institutionalism is that the focus is somewhat shifted, from an organizational approach to a more rule based approach, also the conception of institutions is moved from a formal to a more informal conception of the institutional structure.

There is also the notion that that institutions are embedded in a larger context instead of the traditional institutionalism standpoint namely that they are free floating entities (Lowndes 2000:97). With the features stated above Japans role as a “coordinator” seems to make sense. And this “coordinatorship” is a way of wielding ones soft power.

This shows that a correlation exists between soft power and various neo-institutional theories, there fore soft power policies could probably be explained through a neo-institutional framework but since the scope of the thesis needs to limited this will not be discussed.

5 Concluding discussion

The main argument in this thesis has been that Japan is taking a free ride in the international system, both when it comes to security and the international trading system, and that this free riding makes it hard for the country to wield any hard power, another aspect of this dilemma is that there is no immediate need for Japan to wield its hard power resources as there are others who do it for them, or at least has been so in the past.

Japan has since its defeat in WW2 been an ally with United States, the country's foreign policy has always been coordinated with the US global strategy. But as the end of the cold war was an event that greatly changed the international political economy. In the wake of this Japan gained more leverage in the international system.

It used this leverage to move closer to neighboring countries in the Pacific basin. This commenced an economic integration project in the region, Japan could exert great influence in these processes due to its financial strength in the world economy, which it has gained by the liberal market order, however it contributes nearly nothing to preserve this system. However Japan has essentially "bought" this power. Unpleasant but sometimes necessary measures such as going out to war have always been outsourced on other countries, primarily the United States but other nations such as South Korea and Taiwan has also been "free ridden".

The way Japan gets away with this is through its economic might, as mentioned countless times throughout this thesis Japan is a major donor when it comes to ODA and it has also spread massive FDI resources throughout the Asian region. These policy initiatives have shed positive light on Japan, it has, or to put it differently, it has increased Japan's soft power pool.

The Japanese miracle is truly miraculous it is literally a transformation from zero to hero in less than fifty years. But however this miracle has not been a balanced one, it has been easy for Japanese companies to penetrate and gain massive revenues from foreign markets. But it doesn't really work the same the other way around. It is surprisingly difficult for foreign companies to gain a foot in the domestic Japanese market due to various "structural barriers" such as government standards etc. Japan has also managed to keep its economy relatively closed by using the legal system of the WTO, the very system which is supposed to do the opposite, liberalizing the international trading regime.

The FDI directed to Japan from other countries is indeed very small; in 2002 the cumulative inwards FDI stock against GDP was a meager 2.0%, compared to 19.1 % in the US and 37.8% in the UK. Japan has started a massive "invest in Japan campaign" to balance the inflow and outflow of FDI in Japan (Mofa.go.jp).

As various globalization processes entwine the world economies, Japan is slowly realizing that it needs to liberalize its economy to a greater extent. Globalization can be seen as a third opening of Japan the first one being the Meiji restoration and the second

one being it's WW2 defeat. Also these aggressive legalism pursued by Japan in the WTO will inevitably back fire sooner or later. In way it already has as Japan now more than ever needs to liberalize it's economy.

When it comes to Japans position in the political realm of the international system the soft power policies pursued by various LDP governments has a strong public support as different opinion polls reviewed in this thesis has shown. So from a domestic point of view the "if it ain't broke, don't fix it" argument is quite applicable. The soft power policies of Japan aren't likely to change by them self as the primer interest of any elected officials is to be reelected.

But it is of course a peculiar situation. Japan has for instance in recent years began massive campaign to gain a permanent seat in the UN security council, Koizumi was in fact in Stockholm this very month trying to gain support for this candidature, Sweden's position in the matter was never disclosed.

Being a permanent member of the UN Security Council equals great responsibility; the question then becomes relevant if such a responsibility is suitable for a "soft power only" state. As Nye himself points out there is interplay of the two. Soft power is usually correlated to a nations hard power. The question then becomes e relevant what a soft power only state can contribute to the international system, also the question of such a country's commitment, especially if the country is reliant on another country in the very same council. UN hardball between the US and Japan could have consequences on the world economy not yet known. It should be stated however that the US strongly back Japans candidature, it is however strongly opposed by China. Japans relations with many regional nations are stretched to say the least, and they pose major obstacles if Japan is to tackle a larger burden of in the international community. Japan needs to move closer to its Asian neighbors in order to gain support for possible future hard power policies, such as normalizing its defense forces etc.

Johnson concluded in his 1995 book that Japan by the turn of the century will be a fully independent nation state. He states that if the US-Japan alliance is still intact it will be differently outlined. In way he was a correct, events in recent months has changed the US-Japan security alliance. Japan is to tackle a larger responsibility of its national defense. A large proportion of the US troops currently positioned on the Japanese islands will move to the American dependency Guam. This is the largest US troop allocation in the pacific basin since the Vietnam War. 50.000 US troops are currently positioned in Japan a presently unknown proportion of these will be moved to Guam. America means that this new location will enable the US military to act faster in the Asia pacific region if an emergency arises. However Japan remains the main base for US troops in Asia. The United States are obliged to defend Taiwan in the event of full scale war between Taiwan and mainland China. Such an operation would not be possible without its military bases in Japan.

Even if Japan remains Americas main base in the Asia-pacific the new arrangements will give Japan a much larger responsibility regarding its national security. According to the chief US negotiator Richard Lawless Japan will have to fork out at least 26 billion US dollars (economist).

Even if the Japanese troop effort in Iraq is meager it should be noted that these troops aren't there under UN flag as has been the case of previous peacekeeping operations, they are the under Japanese flag. This shows a policy shift about Japans national security. It signifies that Japans national interest sometimes needs to be preserved even if they are far off from home.

As mentioned previously Japans has an ambivalent relation with its WW2 past, this makes it hard to normalize its defense forces (economist).

There is mix up between the normalization of defense and a normalization of nationalism. Japan makes no sincere effort to clear out this misunderstandings as prime ministers of various factions visits the Yasakuni shrine in Tokyo where fourteen convicted class A wartime criminals are enshrined (economist).

In a way the controversy of Japans Defense is partly the US's fault as they kept the monarchy intact in the post-WW2 pacifist constitution. Although the emperor has no formal power he played a central role in Japans WW2 propaganda. This has made it difficult for Japan to move forward, as it's necessarily still the same country. Germany built a new national identity after its WW2 defeat. Germany thereby managed to isolate the Nazi era from the overall German history; this is not as easy for Japan.

The US army relocation can in a way be seen as a back clash of Japans free riding regarding its national defense. If this is the case Japan needs to play a more active role regarding its own security, this scenario forces it to wield its hard power resources.

America's military transformation in the pacific basin can mean a profound transformation of the Japanese armed forces. If Japan starts utilizing this hard power recourse it will inevitably change the political economy of the region, making academia and the international community once again focus on the country of the rising sun.

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