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# International Positions and Development Cooperation Policy in Japan and Germany*

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## 1. INTRODUCTION

With the end of the Cold War, development cooperation policy, like trade policy in the mid 1960 s and international financial policy in the early 1980 s, has become a major element of the foreign policy of every industrialized country.(1) Opportunities and constraints in international relations are increasingly originating in developing countries. The breakdown of the Soviet Empire has relegated a cluster of the former communist countries to the status of merely "poor" developing countries, some of which neither share the norms concerning democracy and markets espoused by developed coun-

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(1) Richard N. Cooper, "Trade Policy is Foreign Policy, "Foreign Policy 9 (Winter1972/73), 18-36; Benjamin J. Cohen, In Whose Interest?: International Banking and American Foreign Policy (New Haven: Yale University Press, 1986).

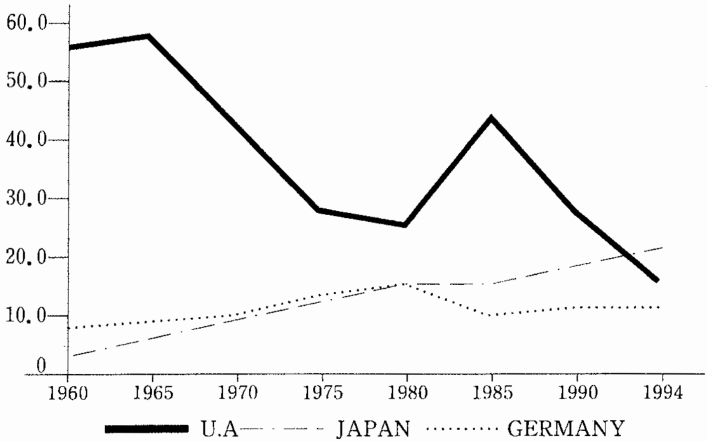


Figure 1　ODA Share in OECD Total (%)

Sources: Organization for Economic Co-operation and Development (OECD), Development Co-operation (Paris: OECD, annual), 1971, pp. 165, 174, 176; 1976, pp. 206-07, 209; 1981, pp. 173-74, 177; 1986, pp. 233-35; 1991, pp. 191, A-21; 1995, pp. A7-A8.

tries nor possess, any longer, absolute deterrence to war.(2)

Japan and Germany are key to prospects for the future stability of North-South relations. How Japanese and German surplus capital has been and will be used in the emerging world order is a crucial question, especially in the context of fragmenting regional blocs.

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(2) Adam Przeworski, Democracy and the Market: Political and Economic Reform in Eastern Europe and Latin America (Cambridge: Cambridge University Press, 1991), pp.189-191; James M. Goldgeier and Michael McFaul, "A tale of two worlds: Core and periphery in the post-cold war era," International Organization 46,2 (Spring 1992), 467-491.

In this new context of international relations, the puzzle I want to solve here is why Japan's development cooperation policy has changed drastically since the mid-1970s in accordance with the structural change in the international economy-from mercantilism toward support of international cooperation-while Germany, a secondary and civilian power similar to Japan, demonstrated little enthusiasm for international causes. Figure 1 illustrates a digested story of Japan's change and Germany's continuity. The increase in Japan's share of official development assistance (ODA) among Organization for Economic Co-operation and Development (OECD) countries, especially after 1975, seems to correspond to the United States' relative decline and Japan's meteoric rise in the international economy, while Germany's incremental change seems to be independent of structural change in the international system. In 1970, Japan was the fifth largest donor country after the United States, France, West Germany, and the United Kingdom. In 1989, Japan took over the American position as the largest aid donor for the first time in the post-war history. Though the United States temporarily regained the number one position in 1990, Japanese predominance in the field of world development has been stable since 1991.(3)

This paper argues that Japan's policy change in response to structural change in the international economy is predicated upon its systematically vulnerable international position. Put differently, Japan's internationalism embodied by the expansion of development cooperation is informed by its international position, which relies on existing liberal international economic arrangements much more heavily than does regionally embedded Germany's. The collapse of the international system inflicts tremendous costs on the Japanese economy.

## 2. INTERNATIONAL POSITIONS

The international position of a state informs its systemic vulnerability. International position is determined by the degree of embeddedness of a state in the international or regional system. The international position is not determined by the distribution of capabilities. I want to treat the state's position within the international division of labor, or economic interdependence.(4) Economic interdependence, which is taken for granted in the conventional analysis of industrialized countries' foreign economic policies, must

(3) In terms of degree of change in the share of ODA, we can arrange the four secondary powers in the order of Japan, France, Britain, and Germany. France has gradually increased its share of total world ODA from 9.6% in 1975/76 to 12.2% in 1990/91, while Britain's share declined from 5.5% to 4.7% in the same period. Akira Nishigaki and Yasutami Shimomura, Kaihatsu Enjo no Keizaigaku-Kyosei no Sekai to Nihon no ODA [Economics of Development Assistance: The World of Economic Symbiosis ana Japan's ODA](Tokyo: Yuhikaku, 1993), p.88. Needless to say, the exchange rate effect of the Japanese yen and the Deutschmark after the Plaza Accord in 1985 cannot explain either the timing of the Japanese increase or German continuity. Between 1985 and the end of 1980 s, the yen appreciated about 40% (trade-weighted exchange rate), and 80% by 1994 after the temporary depreciation in 1990. The mark, on the other hand, has been incrementally appreciating and the exchange rate of 1994 was 20% higher than the 1985 rate. The Economist, April 6 th, 1994, p.131.

be a subject of analysis if we are to understand the causes of the differing policy dynamics of Japan and Germany. Understanding Japan's postwar vulnerability requires us to clearly distinguish systemic vulnerability from actor vulnerability. The latter was defined by Albert Hirschman as an asymmetrical structure of costs of change in bilateral economic relations.(5) Systemic vulnerability is a function of the "scope" of the economies in which a country's economic welfare is realized. Scope is much more important than current discussions of the international postions of states, which emphasize the size or magnitude of interdependence, recognize.(6) The level of interdependence is usually measured in the latter terms, that is, by gauging export dependence and multinationality of foreign investment or volume of international capital moblity. Empirical analyses based upon size measurements tend to conclude that increased interdependence promotes liberalization of trade policy and coordination of monetary and fiscal policies among industrialized countries.(7) However, such measurements of interdependence misspecify the real economic vulnerablity that led Japan to liberaliza-

(4) A similar discussion can be found in Stephan Haggard, "Structuralism and Its Critics: Recent Progress in International Relations Theory," in Emanuel Adler and Beverly Crawford, eds., Progress in Postwar International Relations (New York: Columbia University Press, 1991), pp.410-22.

(5) Albert O. Hirschman, National Power and the Structure of Foreign Trade (Berkeley: University of California Press, 1945).

(6) A similar discussion can be found in John M. Stopford and Susan Strange with John S. Henley, Rival States, Rival Firms: Competition for World Market Shares (Cambridge: CambridgeUniversity Press, 1991), pp.77-78.

tion. In fact, such interdependence theory predicts increasing protectionism, compared to other industrialized countries, for Japan. The Japanese economy's dependence on international trade has been stable since the 1960 s, with imports plus exports holding at 25 percent of its GNP, while Germany's trade dependence doubled from 25 percent to 50 percent over the last four decades. Despite its lower reliance on the international economy, Japan's customs duty ratios (total duty income/total volume of imports), for example, has been the lowest among the OECD countries since the early 1980 s.[8] We must focus on the scope of interdependence to understand how interdependence approaches "complex interdependence" and to explore cross-nationally the different impacts of interdependence on state policy choice.[9]

The scope of interdependence should be measured on both hori-

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(7) Helen V. Milner, Resisting Protectionism: Global Industries and the Politics of International Trade (Princeton: Princeton University Press, 1988); Michae. C. Webb, The Political Economy of Policy Coordination: International Adjustment since 1945 (Ithaca: Cornell University Press, 1995).

(8) Ryutaro Komiya, The Japanese Economy: Trade, Industry, and Government (Tokyo: University of Tokyo Press, 1990), p.77; Keizai Koho Center, Japan 1992: An International Comparison (Tokyo: Keizai Koho Center, 1991), p.30.

(9) The characteristics of complex interdependence include multiple channels of transnational relations such as interstate, transgovernmental relations; the absence of hierarchy among issues that makes no difference between high politics and low politics; and the minor role of military force. Robert O. Keohane and Joseph S. Nye, Power and Interdependence, Second Edition (Glenview Illinois: Scott, Foresman and Company, 1989), pp.23-25, 254-57.

zontal and vertical dimensions: the geographical extent of interdependence and the level of inter-industry trade with and investment in developing countries. This is because systemic vulnerability increases as interdependence with regions or countries that impose rules and customs that are unfamiliar to the state increases. Different languages, currencies, commercial laws, as well as cultures and histories, tend to increase transaction costs associated with transnational economic exchanges, and thus the globally interdependent state has to rely on international institutions and/or a dominant power in order to maintain international economic order. The disruption of multilateral arrangements or the rapid decline of the hegemonic power will cause far greater damage to a globally interdependent state than to a regional state which is embedded in regionally institutionalized economic transactions.

Systemic vulnerability becomes more conspicuous if a state either chooses or must be involved in North-South interdependence. This is because multilateral arrangements are ncecessary if the interdependent state is to manage the "structural conflict" between industrialized and developing countries. As Albert Hirschman and Stephen Krasner argued, any effort to understand industrialized countries' economic policies toward developing countries must start by taking cognizance of the international divide between North and South.[10] They argue that there exists a structural conflict, which is

(10) Albert O.Hirschman, Essays in Trespassing:From Economics to Politics and Beyond (Cambridge:Cambridge University Press,1981); Stephen D. Krasner, Structural Conflict:The Third World Against Global Liberalism (Berkeley : University California Press, 1985).

based upon ideological differences between the North's belief in market-oriented resource allocation and the South's demands that states or international organizations control the directions and volumes of resource flows.

This paper contends that, since the end of the World War II, Japan has been a pure trading state, whose international position has been determined by global-scope interdependence, while Germany has been a regionally embedded trading state.[11] Japan, to a far larger extent than Germany, has consistently suffered from systemic vulnerability to a possible collapse of current international regimes. Therefore, in order to maintain the international economic order, it was in Japan's interests to extend international cooperation, commensurate with its economic power. Increased economic power and a resulting improvement of asymmetrical structures of interdependence (actor vulnerablity) cannot reduce Japan's systemic vulnerability, unless it takes on hegemonic status in the world economy or establishes a substitute regional autarky. Thus systemic vulnerablity derived from global-scope interdependence creates a necessary condition for international cooperation.

## 3. DEVELOPMENT COOPERATION POLICIES IN JAPAN AND GERMANY AFTER THE WAR

(11) For the common characters of Japan and Germany as trading states that gave up the idea of traditional politco-territorial claims, see Richard Rosecrance, The Rise of the Trading States: Commerce and Conquest in the Modern World (New York: Basic Books, 1986).

All policy patterns consist of change and continuity. However change has been more prominent in Japanese development cooperation (DC) policy, while in Germany continuity has dominated. In the following, I will contrast the differing policy dynamics at work in the two countries. Specifically, I will describe how, from the mid-1970 s to the mid-1980 s, Japan changed its economic DC policy drastically in order to burden-share with the United States. In contrast, Germany's policy has consistently attempted to realize the economic interests of particular groups within German.

A. Japan's Development Cooperation Policy after the War: From Commercialism to International Cooperation

The mid-to late-1970 s, especially, the year 1977-78, was a turning point in Japan's DC policy. Aid was redirected from mercantilist efforts to promote Japanese exports and secure raw materials toward projects intended to support international cooperation and maintain the United States-led international system.

When Japan replaced the United States as the largest aid donor in Asia in 1977,[12] Japanese policy-makers became aware that they must support the U.S.-led international economic and security system. In the same year, Japanese foreign direct investment (FDI) in Asia surpassed that of the United States at roughly $6 billion.[13]

(12) Juichi Inada, "Japan's Aid Diplomacy: Increasing Role for Global Security," Japan Review of International Affairs 2,1 (Spring/Summer 1988): 92. The Asian region includes East, Southeast, and South Asia.

When former prime minister Takeo Fukuda visited southeast Asian countries in 1977, he proposed a new relationship between Japan and the southeast Asian countries based upon the multilateral framework of the Association of South-East Asian Nations (ASEAN) as a way to stabilize the region and take into account the shift of power from the United States to Japan. After Fukuda's visit, the word ASEAN replaced southeast Asia in Japanese political parlance.[14] The new international role for Japan's foreign aid was confirmed when representatives of the Japanese and the United States governments met in 1978 in Shimoda, Southwest of Tokyo, to hold the first-ever meeting to focus exclusively on aid.[15]

Japanese DC policy, as has often been pointed out, started as an instrument to promote exports of Japanese manufactured goods and services and secure imports of natural resources from developing countries. Both the Exim Bank, founded in 1950, and the payment of war reparations from 1954 were aimed at aiding exports of Japa-

(13) Richard F. Doner, "Japanese Foreign Investment and the Creation of a Pacific Asian Region," in Jeffrey A. Frankel and Miles Kahler, eds., Regionalism and Rivalry: Japan and the United States in Pacific Asia (Chicago and London: The University of Chicago Press, 1993), p.161.

(14) Takashi Shiraishi, "Japan and Southeast Asia," paper prepared for the Workshop, "Japan in Asia," Cornell University, Center for International Studies and Southeast Asian Program, March 31-April 1, 1995, p.29.

(15) Since then high-ranking officials of the US Agency for International Development and the MOFA's Economic Cooperation Bureau have agreed to meet more or less annually.

nese machinery and manufacturing plants, mostly to Southeast Asia, and imports of raw materials such as oil, iron ore, tin and rubber from the same region.(16) MITI's first white paper on economic cooperation clearly articulated that

> The fundamental principles of our economic cooperation policy include not only advancing developing countries' economic development but also contributing to the expansion of markets for Japanese exports and securing imports of crucial raw materials, both of which solidify the future direction of our economy.(17)

When the budget allocation for economic cooperation expenditures became an important item (*jyuyo keihi*) in the Japanese general budget in 1958, it was placed under the heading of export promotion. That is, Japanese policy-makers saw no distinction between economic cooperation and export promotion in the very early stage of Japan's DC policy.(18) Although tied aid, which links foreign aid

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(16) For studies of Japanese economic cooperation policies before the 1970 s, see Sukehiro Hasegawa, Japanese Foreign Aid: Policy and Practice (New York: Praeger Publishers, 1975); and Alexander Caldwell, "The Evolution of Japanese Economic Cooperation: 1950-1970," in Harold B. Malkgren, ed., Pacific Basin Development (Lexington, MA: D.C. Health and Co., 1972), pp.23-60.

(17) Tsusho Sangyosho (MITI), Keizai Kyoryoku, 1958, p.1 (preface). The MOFA often used the term "long-term national interests," instead of export promotions or resource imports. Mercantilist objectives no doubt dominated policy-making of Japan's DC policy until the late 1970 s. Gaimusho (MOFA), Waga Gaiko no Kinkyo [Diplomatic Bluebook], 1970 (Tokyo: Gaimusho, 1970), p.356.

with donor exports, has been criticized by development experts for making procurement costs for recipients countries higher than the market price by 10 to 30 percent, Japan did not feel that it was in its interests to consider "other" developing countries' fiscal situations, when Japan itself was a developing country and chronically suffered from a shortage of hard currency.(19)

In the late 1970 s, the policy emphasis shifted toward contributions to the international community. The use of tied aid for the promotion of exports was reconsidered by Japanese policy-makers in the late 1970 s. While the first untied loan was extended in 1972, it was only after the late 1970 s that untied ODA expanded remarkably and became a national policy. In 1977, the government announced that, in principle, the Japanese government would promote the provision of "untied loans" to developing countries after 1978.(20) Because of its significance for Japan's trade in general, this policy shift was confirmed in a joint communique of the United States and

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(18) David Arase, Buying Power: The Political Economy of Japan's Foreign Aid (Boulder: Lynne Rienner Publishers, 1995). As we will see in the next section, 1958 was a turning point for Japan's DC policy, when war criminal Prime Minister Kishi took initiatives to return Japan's economy to Southeast Asia through the use of economic cooperation.

(19) For economic explanations of the collective evils derived from tied aid, see Catrinus J. Jepma, The Tying of Aid (Paris: Development Center of the OECD, 1991), pp.15-16.

(20) There are two types of untied aid. The first one is called general untied aid, procurement with which is open to suppliers in all countries. The second one is partially untied aid, which limits suppliers of aid-related goods and services to donor countries and developing countries' firms.

Japan signed in the same year.[21] Since then, as Table 1 shows, the tied aid portion, which includes so called "partially untied" aid that limits procurement by aid recipients to aid donors and developing countries, has steadily decreased, and by the middle of the 1980 s, Japan became one of the most liberal aid donors among OECD countries as reflected in the share of untied aid in total ODA. The Japanese government even decided to promote untied "grant" aid, in addition to untied "loans," although grant aid tied to the donor country's exports is the international norm.[22] In this context, in 1987, the government chose the Crown Agents, the implementing agency of the British Overseas Development Administration, and

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(21) Hasegawa, Japanese Foreign Aid, p.4; Tsusho Sangyosho (MITI), Keizai Kyoryoku, 1977, p.101; Ken-ichi Imai, Yumiko Okamoto, Kazuhiko Yokota, and Akira Hirata, "Nihon no Seifu-Kaihatsu-Enjo no Tenkai [The Evolution of Japan's Overseas Development Assistance]," in Ippei Yamazawa and Mitsuru Hirata, eds., Nihon, Amerika, Yoroppa no Kaihatus Kyoryoku Seisaku [Development Cooperation Policy in Japan, America, and Europe] (Tokyo: Ajia Keizai Kenkyjo, 1992), p.34.

(22) Generally speaking, donor countries that emphasize grant aid, rather than loan aid, such as the Scandinavian countries and Britain, tend to have high tying status, because grants are usually provided to developing countries on a condition that goods and services be purchased from donor countries. For more discussion about the correlation between grant portion and tied aid, see Akira Nishigaki and Yasutami Shimomura, Kaihatsu Enjo no Keizaigaku: Kyosei no Sekai to Nihon no ODA [Economics of Development Assistance: The World of Economic Symbiosis ana Japan's ODA](Tokyo: Yuhikaku, 1993), pp.96-97.

United Nations Development Program as executive agencies to implement Japan's $500 million non-project grant aid to Sub-Saharan Africa.(23)

The decrease in officially tied aid has resulted in a shrinking share for Japanese companies of the goods and services purchased with Japanese aid money. The traditional practice of Japanese foreign aid implementation, in which Japanese trading firms consult with the governments of recipient countries, while communicating closely with bureaucrats in Japanese embassies and in Tokyo, write drafts of feasible economic projects, and advise the local governments to request official yen loans from the Japanese government, has rapidly become anachronistic. As the untied portion of Japanese ODA has increased, Japanese businesses have lost incentives to find feasible development projects. As was often pointed out by foreign observers, it would be possible for Japanese companies to win international contracts for the untied aid provided by Japan, if the project designs, usually prepared by development consultants before bidding, include goods and services in which Japan has a competitive advantage against other countries. However, since the late 1980s, the government, in response to foreign criticism, liberalized loans for feasibility studies, design and preparation of bidding

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(23) Julia Chang Bloch, "A U.S.-Japan Aid Alliance?" in Shafiqul Islam, ed., Yen for Development: Japanese Foreign Aid and the Politics of Burden-Sharing (New York: Council on Foreign Relations Press, 1991), p.73; Toru Yanagihara and Anne Emig, "An Overview of Japan's Foreign Aid," in Islam, ed., Yen for Development, p.52; Jepma, The Tying of Aid, p.91.

documents, and construction supervision and project management, so that Japanese consultants, in cooperation with trading firms, cannot rig project designs to favor Japanese products.(24) Since 1987, the Overseas Economic Cooperation Fund's (OECF) consulting awards, both loans and grants, provided to such countries as South Korea, Malaysia, Thailand, the Philippines, Brazil, and Papua New Guinea for engineering consulting have become generally untied. This contributed to the drastic drop in Japan's procurement share in 1990. (see Table 1). OECF's initiatives to promote project identification and implementation without the involvement of Japanese business include "Special Assistance for Project Formation (SAPROF)" from 1990 and "Special Assistance for Project Implementation (SAPI)" from 1992.(25) For Japanese companies, making profits directly from ODA business is a bit of the good old days; for the government, the trend toward untied aid is irreversible, even as opposition, mainly from big trading firms, has increased, especially as the Japanese economy has struggled to exit from one of the worst economic recessions since the war.(26)

Since the middle of the 1980 s, the Japanese government has encouraged American companies to acquire a bigger share of procure-

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(24) Consulting accounts for 2 to 5% of Japanese yen loan ODA. Engineering Consulting Firms Association, Japan, Heisei 4-nendo Kaigai Konsarutanto Orienteshon semina [International Consultants Orientation Seminar, 1992](Tokyo: ECFA, 1992), pp.100-101.

(25) Overseas Economic Cooperation Fund (OECF), Annual Report, 1993 (Japanese) (Tokyo: OECF, 1993), pp.21-23; Interview No.25, Tokyo, March 31, 1994.

Table 1

Tying status and procurement of Japanese and German ODA (%)

| | 1970 | 75 | 80 | 85 | 90 | 94 |
|---|---|---|---|---|---|---|
| JAPAN | | | | | | |
| Tied ODA/Total ODA** | 70.7* | 44.2 | 30.1 | 18.6 | 12.5 | 13.9 |
| Tied+Partially untied ODA/Total ODA*** | 71.7* | 51.8 | 47.7 | 34.4 | 15.3 | 14.9 |
| Japan's procurement/Total ODA | n.a. | n.a. | ****70 | 68 | 27 | 27 |
| GERMANY | | | | | | |
| Tied ODA/Total ODA | 42.7* | 30.3 | 13.1 | 25.9 | 38.2 | :37.4 |
| Tied+Partially untied ODA/Total ODA | 47.4* | 33.9 | 13.1 | 25.9 | 38.2 | – |
| Germany's procurement/Total ODA | 80 | 73 | 63 | 75 | 90 | |
| OECD Total | | | | | | |
| Tied ODA/Total ODA | 55.1 | 49.8 | – | 36.2 | 23.5 | 22.1 |
| Tied+Partially Untied ODA/Total ODA | 64.6 | 59.7 | – | 42.8 | 28.2 | 24.5 |

Sources: [Tied/ODA] OECD, Development Cooperation (Paris: OECD),1974, pp.248-49; 1976, pp.234-35; 1981, p.199; 1986, p.241; 1992, p.A-15; 1996, p.A-50. [Japan's Procurement] Shafiqul Islam, "Foreign Aid and Burdensharing: Is Japan Free Riding to a Coprosperity Sphere in Pacific Asia?" in Jeffrey A. Frankel and Miles Kahler, eds., Regionalism and Rivalry: Japan and the United States in Pacific Asia (Chicago: The University of Chicago Press, 1993), p.346.
[Germany's Procurement] Catrinus J. Jepma, The Tying of Aid (Paris: Development Center of the OECD, 1991), p.25; for 1970 figure; Ranald S. May, Dieter Schumacher and Mohammed H. Malek, Overseas Aid: The Impact on Britain and Germany (New York: Harvester Wheatsheaf, 1989), p.37 for 75, 80,85 figures; Hans H. Lembke, "Nikokukan Enjo no Keitai to Hoshiki," in Ippei Yamazawa Akira Hirata, eds., Development Cooperation Policies of Japan, the United States, and Europe (Tokyo: The Institute of Developing Economies, 1992), p.293 for 90 figure.

Notes: *1972 figure.
**including both bilateral and multilateral ODA (commitment basis).
***Partially untied loans include developing countries as well as the aid donor country as goods and services suppliers related to the loans.
****1983 figure.

(26) Interview No. 26, Tokyo, April 1, 1994. For voices that maintain Japan's economic interests in implementing aid policy, see Yomiuri Shimbun, January 25, 1994, p.3.

ment using Japanese ODA. The Councilor of the Economic Cooperation Bureau of the MOFA made an official trip to the United States in 1989 to give a lecture on procurement procedures for Japanese ODA at seminars sponsored by the United States Agency for International Development (USAID) in San Francisco and Orlando. Also, in 1992, the Tokyo ODA Conference was hosted by the US government under the banner of global partnership. And the U.S. Department of Commerce published Japan's Foreign Aid Program: Opportunities for U.S. Business, a book designed to help U.S. businesses participate in Japan's ODA. These efforts increased the share of U.S. companies in Japanese ODA procurement from 2 percent in 1986 to around 5 percent in 1994.(27)

B. Germany's Development Cooperation Policy after the War: Domestic Interests

Germany's DC policy has been much more stable and consistent than has Japan's. Official Government policy concerning development cooperation, as expressed in the "Conception of Development Policy" of 1971, 1972, and 1973, the "Twenty-five Theses" of 1975, the "Seventeen Theses" of 1979, and the "Fundamental Aspects of Development Policy" of 1980, have all involved a compromise be-

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(27) Kokusai Kaihatsu Janaru, July 1989, pp.26-27. Michael Williams, "U.S. Seeks to Help Companies Obtain More of Japan's Foreign-Aid Budget," The Wall Street Journal, June 10, 1994, p.A 6; Margee M. Ensign, Doing Good or Doing Well?: Japan's Foreign Aid Program (New York: Columbia University Press, 1992), p.50.

tween humanitarianism and the commercial interests of Germany. For example, one of the Twenty-Five Theses reads: "Development Policy is part of the total policy of the Federal Government; the latter will endeavor during implementation to establish an equalization between the exigencies of development policy and our other interests." (28) Due to this balancing of policy objectives, German DC policy is often found to be between those of hardline countries, which give priority to their strategic or economic interests, such as the United States, the United Kingdom, and France, and progressive states such as the Netherlands and the Scandinavian countries, which advocate noblesse oblige in foreign aid.(29)

Economically, German DC policy has been based upon commercially-motivated domestic interests that attempt to achieve short-term economic gains through the export of German products to developing countries. Among industrialized countries, Germany has been a champion of commercially motivated industrial policy. As in

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(28) Cited in Phoebe Kornfeld-Ulmet, "West German Foreign Aid: The Case of Cameroon," Ph.D. dissertation, Duke University, 1984, p.81.

(29) Rolf Hofmeier, "Bonner Entwickungspolitik: Grundlinien und Rahmen-bedingungen [German Development Policy: Basic Concepts and Actual performance]," in Reiner Steinweg, ed., Hilfe+Handel=Frieden?: Die Bundesrepublik in der Dritten Welt (Frankfurt am Main: Suhrkamp, 1982), pp.241-269; Rolf Hofmeier and Siegfried Schultz, "German Aid: Policy and Performance," in Olav Stokke, ed., European Development Assistance: Volume I, Policies and Performance (Tilburg, the Netherlands: The European Association of Development Research and Training Institutes, 1984), pp.206-238.

Japan, DC policy has been a major component of Germany's fundamental objective of enhancing its industrial and commercial interests abroad.[30] Policy objectives such as securing natural resources needed to run industries, promoting exports of German manufactured goods to sustain the welfare state, absorbing economic shocks derived from cyclical downturns of the domestic economy, and maintaining employment in the face of the structural decline of heavy industries, have predominated in German development cooperation policy.

To realize these economic interests, successive German governments have asserted the importance of a connection between government official aid and private investment and trade. In fact, the German government has occasionally explained its economic interests in terms more unequivocal than those uttered by Japanese policy-makers. Ludwig Erhard, the "Godfather" of the German economic miracle of the 1950 s, contended that: "In any process of development, the socioeconomic overhead capital financed by public means must be combined with private initiative."[31] Erhard's view of cooperation between the government and private sector laid the foundation for the continuity of German development policy. The

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(30) Andrew J. Spindler, The Politics of International Credit: Private Finance and Foreign Policy in Germany and Japan (Washington D.C.: The Brookings Institute, 1984), p.14; Andrew A. Jones, "A Question of Self-Interest?; The Policy and Praxis of Today's West German Development Aid" (Senior Honors Thesis, Duke University, 1990).

(31) Cited in Jack L. Knusel, West German Aid to Developing Nations (New York: Frederick A. Praeger Publishers, 1968), p.26.

Ministry of Economic Cooperation (BMZ) expressed its views on development cooperation in the early 1960 s by maintaining that "The cooperation of private forces creates realities by which government policy, too, will find its direction."(32) In 1963, the Bundestag passed the Development Assistance Tax Law (Entwicklungshilfesteuergesetz) that grants German firms a tax waiver when they put their profits into reserves against future losses derived from investment in or lending to developing countries.(33) In 1970 s, the Economic Cooperation Minister Eppler Erhard stated that private investments constituted "the A and O of all development policies. Everything else was subsidiary."(34) This commercial motivation remained unchanged, and in 1986 the Federal Government stated in an official publication that "It is our legitimate interest to make sure that our development assistance, which is taxpayers' money, does

(32) Cited in Karel Holbik and Henry Allen Myers, West German Foreign Aid 1956-1966: Its Economic and Political Aspects (Boston: Boston University Press), p.59.

(33) The law allowed German companies to make tax-free financial reserves of up to 50% of remaining profit in order to offset losses and to depreciate problem investments at 85% of market value and write off 15% of the otherwise taxable profits accruing from the investments. The law was amended later to provide further incentives to potential investors in developing countries. However, the tax preference was abruptly abolished in 1981. See Holbik and Myers, West German Foreign Aid, pp.53-59; OECD, Investing in Developing Countries, p.75; James Alexander Shaw, "West German Development Aid," MA Thesis, The University of South Africa, Pretoria, 1971, p.83; Knusel, West German Aid, p.78.

(34) Cited in Shaw, "West German Development Aid," p.71.

not favor rival industries in other countries."[35]

The German government particularly emphasized natural resources development in developing countries. Since Germany had lost all of its overseas colonies by the end of World War I, acquiring sources of raw materials required special efforts from the government. Thus, Latin American countries became a major destination of official aid and private investment during the 1960s and 70s.[36] The Economic Cooperation Ministry under Marie Schlei (1976-78) stressed the importance of natural resources:

> A secure supply is of great importance for the FRG as the third largest raw material consumer in the West. The guarantee of the supply of raw materials is for us the primary task of the private sector. The private activities can be usefully complemented by the development policy measures of the government.[37]

For example, in 1979, Germany's direct investment to Brazil accounted for approximately 50 percent of total direct investment in developing countries.[38] Aid and investment in Africa, though far smaller than in Latin America, were also directed toward resource development.[39]

This commercially motivated DC policy was shared by the two

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(35) Press and Information Office, Development Policy, p.7.

(36) Brigitte H. Schulz, "Development Aid and Trade: The Two German States and Sub-Saharan Africa, 1960-1985" (Ph.D. dissertation, Boston University, 1989), pp.118-119, 141; Wolfgang C. Goede, Lateinamerika im Griff der deutschen Wirtschaft: Eine entwicklungspolitische Bilanz der 70 er Jahre (Munchen: Verlag Holler, 1984), especially pp.90-193.

(37) Quoted in Jones, "A Question of Self-interest?" pp.14-15.

"trading states," Japan and Germany, at least until the late 1970 s. In the 1970 s both countries together accounted for 62 percent of OECD bilateral industrial aid.[40] Japan and Germany similarly mobilized the finances of semi-governmental organizations for resource development. Although funding through Germany's KfW's (*Kreditanstalt für Wiederaufbau*) was less intensive than that offered by Japan's Exim bank during the 1970 s, the KfW's use of its funds for developing natural resources was consistent. But, while the Japanese Exim Bank shifted its major operations to provision of untied loans for non-resource related sectors, the majority of similar loans extended by the KfW is still targeted to raw material sources for the German economy.[41]

Export promotion has also been prominent in German DC policy since the 1950 s. German foreign aid made its first appearance in

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(38) German Development Institute (GDI), "Key Countries in the Third World: Implications for Relations between the Federal Republic of Germany," Occasional Report of the GDI, 65 (1981), 36-40, and 190-195.

(39) Brigitte Schulz and William Hansen, Aid or Imperialism: West Germany in Sub-Saharan Africa, Working Papers No. 61 (African Studies Center, Boston University, 1982).

(40) Robert E. Wood, From Marshall Plan to Debt Crisis: Foreign Aid and Development Choices in the World Economy (California: University of California Press, 1986), p.144.

(41) For the activities of the Exim Bank and KfW in the 1970 s, see Philip A. Wellons, Passing the Buck: Banks, Governments and Third World Debt (Cambridge, MA: Harvard Business School, 1987), p.67. With regard to current operations of the KfW, see KfW, Facts and Activities, May 1991 (pamphlet), especially, p.5.

the German federal budget in 1956 when DM 50 million was appropriated under the commercial section of the Foreign Office. Although the Economics Ministry had already earmarked DM 500,000 of European Recovery Program (ERP)-resources to send German experts to developing countries in 1953, it was the first official attempt to disburse official money as foreign aid. Germany's capital aid programs for the purpose of export promotion started to expand rapidly after 1958, when the German government committed itself to joint credits of DM 660 million for the construction of a steel mill in Rourkela, India by the Indian government and two German firms, Krupp and Deman. By 1964, the federal government had injected DM 1.8 billion into the joint venture. Since then, substantial capital aid has been disbursed by the federal government in order to expand German exports to developing countries under the slogan of "aid policy of one piece (Entwicklungspolitik aus einem Gus)."[42] During the 1970 s, South Africa was a major destination of capital aid. That country was an important business partner for German firms, both as a supplier of strategic materials such as uranium, chrome and manganese, and as one of the largest buyers of nuclear power plants. German ODA used for nuclear plants was generally tied.[43]

Remarkably, in contrast to the Japanese, the Germans have normally managed export promotion without exploiting tied aid. As we saw in Table 1, German exports using economic assistance have

(42) Klaus Linke, "Concepts of National Development Aid," Intereconomics, October 1968, p.307.

been relatively stable at a high level since the 1970 s, while the Japanese government intentionally reduced the tying of aid to exports after the late 1970 s. While Germany has kept officially tied aid at around 30 to 40 percent throughout the post-war period (in contrast to Japan's over 70 percent before the late 1970 s) the German private sector has succeeded in winning international open bids for procurement financed by German aid. For example, during 1978-83 German industries' reliance on tied aid, except for railroad equipment and ship-building, was one of the lowest among major European aid donors.(44) Nevertheless, almost 80 percent of German official aid loans and 90 percent of its technical aid has been "unofficially" linked to German business and has flowed back to Germany.(45) If orders financed by multinational agencies, untied aid from other donors, and indirectly induced demands for German products by third-party countries, are taken into account, total procurement exceeded the direct costs of German aid programs by some 14 percent during the period 1978-84. In the mid 1970 s, 270 percent of German contributions to the World Bank returned to the German economy.(46) Ironically, when the government attempted to respond to current surplus problems and a resultant currency re-

(43) Like the United Kingdom, Germany was reluctant to confront the apartheid regime in South Africa for commercial reasons. The German government opposed the EEC's resolution on sanctions against South Africa in 1985, especially the Community's ban on imports of coal. For more discussion of Bonn-Pretoria relations, see Zdenek Cervenka and Barbara Rogers, The Nuclear Axis: Secret Collaboration between West Germany and South Africa (London: Julian Friedmann Books).

(44) Jepma, The Tying of Aid, pp.33,42,45.

valuation in the 1960 s by using increased development assistance to promote capital exports, the policy resulted in an expansion of exports of goods and services. Partly because of its concern about currency appreciation, the powerful Money and Credit Section of the Ministry of Economics apparently opposed a sudden increase of tied aid from 9 percent to 55 percent in 1963.[47]

## 4. INTERNATIONAL POSITIONS AND DEVELOPMENT COOPERATION POLICIES

Systemic vulnerability has been a necessary condition in the development of Japan's high sensitivity to structural change in the in-

(45) To supplement Table , in 1966, approximately 82% of the credits granted to developing countries flowed back in the form of purchase orders to the German economy. Holbik and Myers, West German Foreign Aid, p.41. In 1984, the turnover ratio was still as high as 75%, although West Germany tied only 21% of its financial aid to purchases of German goods. The German Tribune, 22 September, 1985, No.1196, p.6. For more detailed figures on the German procurement rate, see May, Schumachen, and Malek, Overseas Aid, pp.36-38, 66-71 for 60 s and 70 s; Holbik and Myers, West German Foreign Aid, p.41, Arnold, Implementing Developing Assistance, p.32; Knusel, West German Aid, p.45 for the early 60 s; Brigitte H. Schulz, "The 'New' Germany and the Third World: Aspects of a Changing Relationship," in William D. Graf ed., The Internationalization of the German Political Economy: Evolution of a Hegemonic Project (New York: St. Martin's Press, 1992), p.237 for the 1970 s. In general EC donors' "unofficial" tied aid, at around 70%, has been relatively high by international standards.

(46) May et al., Overseas Aid, p.70; Schulz, "The 'New' Germany," p.237.

ternational economy. Since the end of the Second World War, Japan has consistently been vulnerable, not only because of asymmetries with specific countries, such as dependence on United States markets or Middle Eastern oil, but more importantly, because the Japanese economy would not function without the existing global system of international trade and capital. This systemic vulnerability was set up by the United States in the early post-war period of the 1940 s and 50 s. Since then the international economic regimes led by the United States have been the fundamental base on which Japan's development cooperation policy has been built. In contrast, Germany's systemic vulnerability since the end of the war has been almost negligible, because the German economy has been enmeshed in intra-industry trade and investment among industrialized European countries which have agreed to institutionalize intra-regional economic transactions.

A. Japan in the World Economy

(47) Michael Kreile, "West Germany: The Dynamics of Expansion," in Peter J. Katzenstein, ed., Between Power and Plenty: Foreign Economic Policy of Advanced Industrial States (Madison: The University of Wisconsin Press, 1978), p.214; John White, German Aid: A Survey of the Sources, Policy and Structure of German Aid (London: The Overseas Development Institute Ltd., 1965), p.112. The BMZ's policy statement announced in 1975 stated that "Monetary policy can be no substitute for development policy; financing development assistance by monetary measures should, therefore, be avoided." BMZ, Development Policy of the FRG (Bonn: BMZ, 1975), p.41.

Japan's international position is an outcome of the American attempt, during the late 1940 s and 50 s, to create an American-led triangular integration of Japan, the United States, and Southeast Asian countries. The triangle was, however, hierachical, with the United States at the apex, Japan beneath the US, and Southeast Asia at the bottom. American policy-makers expected integration both to boost Southeast Asian industrialism and accelerate Japan's economic recovery and to produce favorable spill-over effects on regional security in Asia.(48) It was within this framework that Japan, as the factory of Asia, was able to export capital goods to Southeast Asia in the name of economic cooperation and import needed raw materials, and the United States provided both open markets for Japanese semi-finished goods and financial and humanitarian aid to devastated economies in Asia. Dean Acheson, George Kennan, and John Foster Dulles effectively managed and determined the structure in which Japan's foreign policy in general, and development cooperation policy in particular, was shaped during the 1950s. Japanese leaders during this time, such as Kijuro Shidehara, Shigeru Yoshida and Hitoshi Ashida, all of whom were

(48) John Dower, Empire and Aftermath, p.415-27 ; William S. Borden, The Pacific Alliance: United States Foreign Economic Policy and Japanese Trade Recovery, 1947-1955 (Madison: University of Wisconsin Press, 1984) ; Bruce Cumings, "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences," in Frederic C. Deyo, The Political Economy of the New Asian Industrialism (Ithaca: Cornell University Press, 1987), pp.44-83.

experienced former diplomats and intenationalists, accepted Japan's role as a non-paying passenger on the ship of the international system and took advantage of economic cooperation to foster Japan's economic recovery.

The American decision to integrate Japan into the triangle was based loosely on the liberal capitalist ideal. When America revised its grand strategy in 1949, replacing Franklin Roosevelt's "one-world" based on an international liberal order with the goal of containing the communist bloc, Washington policy-makers sought to solidifying security in Asia. Dean Acheson devised a second-best strategy of seeking regional security in Asia, which was described as a "great crescent" stretching from Japan through Southeast Asia and around India, ultimately to the oil fields of the Persian Gulf. Like Germany in Europe, Japan was expected to be the workshop of Asia.[49] Promoting Japan's economic recovery and the expected spill-over into Southeast Asian countries was simply a part of an American grand-strategy, which included reducing Great Britain's dollar debt and relieving French burdens in Indo-China.[50] Kennan was assigned the job of reversing the course origninally set by Acheson. He urged an end to purges of Japanese war criminals, the immediate necessity of a bilateral U.S.-Japan peace treaty, and the minimization of war reparations. By the beginning of 1949, the American policy had moved beyond passive containment to positive "rollback" in response to communist encroachments in northeast

(49) Bruce Cumings, "Japan's Position in the World System," in Andre Gordon, ed., Postwar Japan as History (Berkely: University of California Press, 1993), p.39-40.

Asia. The policy revision culminated in National Security Council document number 48, so called NSC 48, in which a hierachical structure of the regional economies was laid out, with America at the core, Japan in the semi-periphery, and South Korea, Taiwan, Southeast Asia, and others on the Periphery. Bruce Cumming explains that:

> A draft [of the document] referred to "certain advantages in production costs of various commodities" in the United States, Japan, and Southeast Asia, which "suggest the mutually beneficial character of trade of a triangular character between these three areas." In other words, this theory of comparative advantage and the product cycle eloborated a tripartite hierachy of American core heavy industries, Japanese light industries and heavy industries revived to acceptable ceilings, and peripheral raw materials and markets.

The transpacific linkage between Asia and the United States was consolidated by Dulles who joined the Truman administration in 1950 and maintained an internationalism that looked on Japan as a

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(50) For a useful discussion of the revision of American foreign policy in the late 1940 s and 50 s, see Andrew Jon Rotter, The Path to Vietnam: Origins of the American Commitment to Southeast Asia (Ithaca: Cornell University Press, 1987), especially, pp.5-7, 38-44, 138-39, 166-84; G. John Ikenberry, "Rethinking the Origins of American Hegemony," Political Science Quarterly, 104,3 (Fall 1989), 375-400; Benjamin J. Cohen, "The Revolution in Atlantic Relations: A Bargain Comes Unstuck," in Wolfram F. Hanrieder, ed., The United States and Western Europe: Political, Economic and Strategic Perspectives (Cambridge, Mass.: Winthrop Publishers, 1974); Robert Gilpin, U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment (New York: Basic, 1975).

junior partner of the United States and England.[51]

The Eisenhower administration abjured the roll-back strategy following the disastrous Korean War. In order to secure Japan's political stability and pro-Western orientation, it opted to open American markets to Japan. In Asia, trade between Japan and China was stagnant, despite relaxed export controls, and the Southeast Asian countries were not reliable markets for Japanese goods, due to insufficient purchasing power.[52] Outside Asia, almost half of the GATT's members invoked safeguard provisions against Japanese exports in the mid-1950s. Even after Japan's admission to GATT as a contracting party in 1955, 14 countries, including the United Kingdom, France, the Netherlands, Belgium, Australia, India, and New Zealand, which accounted for about 40 percent of Japan's exports to GATT members, invoked Article 35 and refused to have GATT relations with Japan. Even though they joined later than Japan, many former colonies of the United Kingdom and France used the same safeguard against Japan. While Canada, West Germany, Italy and the Scandinavian coutries gave Japan most-favored-nation (MFN) treatment, the U.S. had the only market reliable enough to support the revival of the Japanese economy after the end of the "special procurements" of the Korean War.[53]

Economic asssitance from international organizations and the

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(51) This part draws upon Cumings, "Japan's Position," pp.39-52. The quotation is from p.45.

(52) Sayuri Shimizu, "Creating People of Plenty: The United States and Japan's Economic Alternatives, 1953-58," Ph.D. dissertation, Cornell University, 1991.

United States to Japan, and from Japan to developing countries was initiated within the triangle of the United States, Japan and Asia. Japan joined the World Bank in 1952, four years before becoming a member of the United Nations. Membership enabled Japan to obtain concessional loans from the Bank to rebuild its infrastructure and reconstruct its economy. Economic assistance from Japan began on a limited scale in 1952, when Japan contributed $80,000 to the United Nations Expanded Program of Technical Assistance (UNEPTA), a predecessor of the United Nations Development Program. In 1954, Japan, with the help of the United States, became a donor member of the Colombo Plan for Co-operative Economic Development in South and Southeast Asia, which had been set up in 1950 to coordinate economic assistance activities in the Commonwealth countries.[54] Participation in the Columbo Plan is officially recognized by the Japanese government as the official beginning of Japanese foreign aid. Japan awarded its first official aid loan in 1958. The first loan went to India because a U.S.-led group of Western donor countries established the first World Bank consultative consortium for India in that year.[55] Japan was also pushed into the Development Cooperation Group (DAG) of the OECD in 1961 (which

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(53) On the difficulty Japanese exports had in penetrating Europe and the vital importance of the American market to Japan in the 1950 s, see Ryutaro Komiya and Motoshige Ito, "Japan's International Trade and Trade Policy, 1955-1984," in Okimoto and Inoguchi, eds., Political Economy of Japan, Vol.II, pp.178-79 ; Borden, The Pacific Alliance, pp.170-71, 179-80.

(54) Takagi, From Recipient to Donor, pp.12-13.

was later renamed the Development Cooperation Committee, or DAC) before it was admitted into the OECD in 1964. The United States used the DAC to put pressure on Japan to expand economic cooperation in Asia. For example, in 1965 the DAC and the United States urged Japan to increase aid to Taiwan and South Korea. The United States also encouraged Japan to take the lead in forming an international consortium for Indonesia in 1966, which was later called the Inter-Governmental Group on Indonesia (IGGI), to support the new Suharto regime.(56)

-Trade-

The vertical and horizontal extent of Japanese international trade provides us a measure of Japan's interdependence in the post-war period. In terms of both geographical extension and inclusion of countries in different development stages, Japan's trade has been demonstrably more internationalized than that of any other industrialized country. As Table 2 shows, Japanese trade, since the 1960 s, has been almost equally with industrialized OECD countries and developing non-OECD countries and has reached regions irrespective of distance. North America, particularly the United States, and Asia have been major markets, and the current resurgence of Asia as Japan's biggest trade partner is part of a pattern as Asia and North America have alternated in that position: Asia led in 1960, 75, 80 and North America in 65, 70, 85, 90. While Europe is in-

(55) Mori, "The Political Economy," p.67.
(56) Mori, "The Political Economy," p.76.

creasingly important as economic integration advances and Japan still relies on crude oil imports from the Middle East, little change has occured to the structure of Japanese trade in the 1990 s. Japan's extensive trade relations with north and south/ and east and west are in striking contrast with those of Germany, which have persistently inclined toward industrialized, European states, which have accounted for 60 to 70 percent of total German trade.

When we look at sectors such as technology and services, the leaders in current trends in international trade, the global character of Japan's interdependence continues to be conspicuous. Along with overseas tourism, technology licences made Japan the leading deficit country in service trade in 1992.[57] Bilateral trade with the United States still dominates Japan's technology trade, but developing countries account for the majority of technology royalty receipts. For example, royalty payments for American licensed technology were three times receipts in 1987 ; developing countries paid around 60 percent of Japan's royalties in 1980, while Germany received less than 10 percent of royalties from that source, and the United States, about 20 percent. Japan has been selling more technology than it imports since the early 1970 s ; Japan was the only industrialized country to register an increase in the number of patents per scientist and engineer between 1967 and 1984, although the

(57) Asahi Shimbun, May 18, 1994, satellite 13 th. edition, p.8. During 1987-92, global trade of goods increased by 56%, while service trade was up by 72%. Service trade accounted for 28% of world trade in 1992. For a detailed analysis of service trade, see Tsusho Sangyosho (MITI), Tsusho Hakusho [White Paper on Trade], 1994.

overall balance of technology-related payments was still negative as of 1989.[58] As Japanese multinationals' foreign investments increase, especially in the United States and Asian countries, technology transfer between home companies and foreign subsidiaries has been growing.

—Foreign Direct Investment (FDI)—

Like international trade, Japanese FDI also embodies the state's rèliance on global-scale interdependence.[59] Unlike trade, FDI enhances vertical, not horizontal, integration of the Japanese economy in the world economy. Thus vulnerablity to the collapse of the existing international liberal order derives from the economic logic of an international division of labor based upon dynamic comparative advantage. Overall, Japanese FDI has been associated with structural change in the Japanese economy. That is, as Table 3 describes, the regional distribution of Japanese FDI has shifted from developing to industrialized countries, as the Japanese economy has become "sophisticated," changing its orientation from heavy industry-centered to high-tech and intelligence. Thus Japan's economic maturation from a capital importer to an exporter has involved the relative demotion even of Asia in the global context.

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(58) Samuels, "Rich Nation Strong Army"; Mark Borthwick, Pacific Century: The Emergence of Modern Pacific Asia (Boulder: Westview Press, 1992), p.515; UNCTC, Transnational Corporations, 1988, p.177; OECD, OECD Science and Technology Indicators Report No.3, R&D, Production and Diffusion of Technology (Paris: OECD, 1989), pp.9, 11; The Economist, May 22, 1993, p.91.

As in the late 1930 s, when Manchuria recieved 70 percent of Japan's FDI, during the 1960 s and 70 s, Japan concentrated FDI in developing countries to acquire and process raw materials for export to Japan. For example, in 1971, while German firms had only 40 percent of their foreign manufacturing in less developed countries, over 90 percent of overseas Japanese manufacturers were located in developing countries.[60] Until the 1970 s, the annual amount of FDI was quite small, around $200 to 300 million. Because the Japanese current account turned to surplus in the late 1960 s, the

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(59) International comparison of FDI data still requires careful attention by researchers, because of statistical problems related to the definition. According to the IMF, FDI is "investment that is made to acquire a lasting interests in an enterprise operating in an economy other than that of investor, the investor's purpose being to have an effective voice in the management of the enterprise." Since this definition creats a grey zone between FDI and portfolio investment, the OECD suggested that a holding of 10% or more of the shares or voting stock should be the benchmark definition of FDI. However, the actual minimum ownership level for FDI varies by county. For example, it is 25% for Germany, 20% for the UK and France, and 10% for the US and Japan. The OECD also suggested that FDI figures should include reinvested earnings, which are earnings made by foreign affiliates excluding dividends or remittances to their parent companies. The US, the UK and Germany follow this suggestion, while Japan and France do not. Ichiro Akimune, "Overview: Japan's Direct Investment in the EC," in The Sumitomo-Life Research Institute, Japanese Direct Investment in Europe: Motives, Impact, and Policy Implication (Aldershot: Avebury, 1991), pp.1-2. In my discussion, FDI data is intra-country as much as possible, unless reliable data are available from international organizations.

Foreign Exchange and Control Law, which was enacted in 1949, was substantially relaxed in 1972, and Japan's capital outflows were almost unrestricted. 1972 is often mentioned as the year one of Japanese FDI. With official backing from Foreign Investment Insurance since 1970, revision of tax provisions for investment losses, and the Export-Import Banks' financial support, the total overseas investment in the four years 1973-76 was nearly double that of the preceding twenty years.[61]

As Japan has become a capital rich country, industrialized countries in both North America and Europe have become major destinations of Japanese FDI. While the volume rocketed to around $50 billion in the late 1980 s, developing countries' share in Japanese FDI shrank from 53 percent to 24 percent between 1980 and 1991; together the United States and Europe claimed 61 percent of cumulative Japanese FDI from 1951 to 1991.[62] While the United States has been the dominant recipient, European countries, especially Germany, have been increasing in importance as partners. Until the early 1970 s, Japan's FDI in Europe was concentrated in finance and

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(60) Lawrence G. Franko, The European Multinationals: A Renewed Challenge to American and British Big Business (Stamford, Conn.: Greylock Publishers, 1978), p.109.

(61) T.J. Pempel, "From Exporter to Investor: Japanese Foreign Economic Policy," in Gerald L. Curtis, ed., Japan's Foreign Policy after the Cold War: Coping with Change (Armonk, New York: M.E. Sharpe, 1993), p.116; Ryutaro Komiya and Ryuhei Wakasugi, "Japan's Foreign Direct Investment," Annals of the American Academy of Political and Social Science, No. 513 (January 1991), 50-53.

Table 2

Japanese and German trade by region (%and (rank))

JAPAN

| | 60 | | 65 | | 70 | | 75 | | 80 | | 85 | | 90 | | 95 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Im | Ex | Im | Ex | Im | Ex | Im | Ex | Im | Ex | Im | Ex | Im | Ex | Im | Ex |
| OECD | 50.2 | 40.8 | 49.8 | 49.3 | 53.6 | 52.6 | 39.8 | 40.6 | 33.7 | 46.1 | 39.7 | 58.1 | 50.2 | 58.9 | 52.8 | 55.9 |
| North America | 40.7(1) | 28.1(2) | 33.3(1) | 32.2(1) | 34.4(1) | 34.0(1) | 24.4(2) | 22.2(2) | 20.8(3) | 26.4(2) | 23.5(2) | 40.1(1) | 26.0(2) | 34.0(1) | 26.3(2) | 29.7(2) |
| Oceania | ... | ... | 3.1(7) | 4.4(6) | 8.8(5) | 7.5(6) | 7.8(4) | 3.8(8) | 5.5(5) | 3.1(7) | 6.4(5) | 3.7(6) | 6.0(5) | 7.8(4) | 10.2(4) | 9.3(4) |
| Europe | 9.6(3) | 12.7(3) | 8.9(4) | 12.6(3) | 10.4(4) | 14.9(3) | 7.6(5) | 14.5(3) | 7.4(4) | 16.6(3) | 9.5(4) | 14.3(3) | 18.2(3) | 22.1(3) | 16.3(3) | 17.0(3) |
| Non-OECD | 49.8 | 59.2 | 50.2 | 50.7 | 46.4 | 47.4 | 60.2 | 59.4 | 66.3 | 53.9 | 60.3 | 41.9 | 49.8 | 41.1 | 47.2 | 44.1 |
| Europe | 3.0(6) | 2.1(6) | 3.4(8) | 3.0(8) | 3.2(8) | 2.6(8) | 2.4(8) | 4.2(7) | 1.5(8) | 3.0(8) | 1.4(8) | 2.0(8) | 1.7(7) | 1.4(8) | 1.6(7) | 0.4(8) |
| Africa | 3.3(5) | 9.0(4) | 4.3(7) | 9.6(4) | 5.8(7) | 7.3(4) | 4.0(7) | 9.8(4) | 3.2(7) | 5.9(6) | 2.7(7) | 2.6(7) | 1.6(8) | 1.9(7) | 1.4(8) | 1.7(7) |
| Latin America | 8.3(4) | 8.0(5) | 8.7(5) | 5.4(5) | 7.3(6) | 5.8(5) | 4.3(6) | 8.4(6) | 4.0(6) | 6.5(5) | 4.7(6) | 4.4(5) | 4.1(6) | 3.9(4) | 2.9(6) | 3.2(5) |
| Middle East | ... | ... | 13.1(3) | 3.3(7) | 11.9(3) | 2.8(8) | 27.9(1) | 9.8(4) | 31.3(1) | 10.0(4) | 22.6(3) | 6.2(4) | 13.3(4) | 3.0(5) | 9.4(5) | 2.0(5) |
| Asia & oceania | 35.3(2) | 40.1(1) | 19.2(2) | 26.9(2) | 17.0(2) | 26.5(2) | 21.1(3) | 26.9(1) | 25.8(2) | 28.1(1) | 28.8(1) | 26.6(2) | 29.1(1) | 31.4(2) | 31.9(1) | 36.7(1) |

Table 3
Japanese and German foreign direct investment (FDI) by region (%and (rank))

| | 1960 | 65 | 70 | 75 | 80 | 85 | 90 | 95 |
|---|---|---|---|---|---|---|---|---|
| JAPAN | | | | | | | | |
| NorthAmerica | 31.0(1) | 27.7(2) | 21.2(2) | 27.6(2) | 34.0(1) | 45.0(1) | 47.8(1) | 45.2(1) |
| Europe | 1.0(5) | 3.1(5) | 37.1(1) | 10.2(4) | 12.3(4) | 15.8(3) | 25.1(2) | 16.7(3) |
| Oceania | 0.7(6) | 0.0(7) | 13.6(4) | 5.5(6) | 9.5(5) | 4.3(5) | 7.3(4) | 5.5(5) |
| Developing Countries | 67.3 | 69.2 | 28.1 | 56.7 | 44.2 | 34.9 | 19.8 | 32.5 |
| LatinAmerica | 29.9(2) | 39.0(1) | 5.1(5) | 11.3(3) | 12.5(3) | 21.4(2) | 6.4(5) | 7.5(4) |
| Asia | 17.3(4) | 22.0(3) | 18.5(3) | 33.6(1) | 25.3(2) | 11.7(4) | 12.4(3) | 24.0(2) |
| MiddleEast | 19.7(3) | 6.9(4) | 3.1(6) | 6.0(5) | 3.4(6) | 0.4(7) | 0.0(7) | 0.3(7) |
| Africa | 0.4(7) | 1.3(6) | 1.5(7) | 5.5(6) | 3.0(7) | 1.4(6) | 1.0(6) | 0.7(6) |
| GERMANY | | | | | | | | |
| European Industrial Countries | | 71.2 | 53.2 | 34.4 | 36.5 | 29.9 | 77.0 | 66.1 |
| EU(EEC,EC) | | 44.9(1) | 35.3(1) | 31.2(1) | 27.7(2) | 21.6(2) | 66.3(1) | 62.4(1) |
| EFTA and others | | 26.3(2) | 17.9(4) | 3.2(5) | 8.8(4) | 8.3(3) | 10.7(3) | 3.7(5) |
| Non-European Industrial Countries | | 8.2(4) | 19.4(3) | 19.0(4) | 48.8(1) | 64.1(1) | 20.1(2) | 12.5(2) |
| Developing Countries | | 20.6(3) | 26.7(2) | 21.6(3) | 13.0(3) | 3.3(4) | 2.7(4) | 11.0(3) |
| Others* | | | 0.7(5) | 25.0(2) | 1.7(5) | 2.7(5) | 0.2(5) | 10.3(4) |

Sources: [Japan] Ryutaro_Komiya, The Japanese Economy: Trade, Industry, and Government (Tokyo: University_of_Tokyo_Press, 1993), p.123 for 1960 figures (totalof 51 - 61); Kotoro Horisaka, in Barbara Stallings and Gabriel Szēkely (eds.), Japan, the United States, and Latin America: Toward a Trilateral Relationship in the Western Hemisphere (Baltimore: Johns Hopkins University Press, 1993), p.55 for figures during 1965 - 90; Internet Home Page of the Ministry of Finance, Japan, http://www.mof.go.jp/fdi/1c008a2.htm. [Germany] Deutsche Bundesbank, Statistische bihefte zu den Monatsberichten der Deutschen Bundesbank, Reihe 3: Zalungsbilanz Statistik, Juni 1968, p.22 for 65 figures; Janur 1972, Sections 10, 11 for 70 figures; Janur 1977, Sections 9, 10 for 75 figures; Janur 1982, Sections 5b, 5c for 80 figures; Janur 1987, Section 5b for 85 fiures; Janur 1992, Section 5b for 90 figures; Zahlungsbilanzstatistik, Juli 1997, Section 9b for 95 figures.

Notes: Japan's figures are based on new investment in the year; Germany, on net investment.
*including centrally planned economies, OPEC.

Table 2 (continued)

GERMANY

| | 60 Im | 60 Ex | 65 Im | 65 Ex | 70 Im | 70 Ex | 75 Im | 75 Ex | 80 Im | 80 Ex | 85 Im | 85 Ex | 90 Im | 90 Ex | 95 Im | 95 Ex |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OECD | 68.4 | 69.6 | 75.5 | 79.4 | 77.8 | 80.3 | 73.3 | 71.8 | 72.9 | 76.4 | 77.1 | 80.0 | 80.6 | 83.3 | 82.1 | 82.2 |
| North America | 16.1(2) | 9.0(3) | 14.4(2) | 9.1(2) | 12.7(2) | 10.1(2) | 8.7(2) | 6.8(3) | 8.5(2) | 6.8(2) | 7.7(2) | 11.4(2) | 7.5(2) | 8.0(2) | 8.1(2) | 8.5(2) |
| Oceania & Japan | … | … | 2.3(8) | 2.1(8) | 2.6(7) | 2.6(7) | 3.1(8) | 1.8(8) | 3.5(7) | 1.8(8) | 5.1(5) | 2.5(7) | 6.5(4) | 3.4(5) | 7.1(4) | 4.6(4) |
| Europe | 52.3(1) | 60.6(1) | 58.7(1) | 68.2(1) | 62.5(1) | 67.7(1) | 61.5(1) | 63.2(1) | 60.8(1) | 67.8(1) | 64.3(1) | 66.2(1) | 66.6(1) | 71.9(1) | 66.9(1) | 69.0(1) |
| Non-OECD | 31.6 | 30.4 | 24.5 | 20.6 | 22.2 | 19.7 | 26.7 | 28.2 | 27.1 | 23.6 | 22.9 | 20.0 | 19.4 | 16.7 | 17.9 | 17.6 |
| Europe | 5.7(5) | 6.8(5) | 4.2(5) | 4.2(6) | 4.7(5) | 5.7(3) | 5.3(5) | 9.3(2) | 5.4(5) | 6.6(3) | 6.2(3) | 5.3(3) | 5.4(5) | 5.1(3) | 4.6(5) | 4.2(5) |
| Africa | 5.7(5) | 5.2(6) | 7.2(3) | 4.4(5) | 7.1(3) | 4.2(4) | 7.4(3) | 5.6(5) | 7.6(3) | 5.4(4) | 6.1(4) | 3.7(6) | 3.0(6) | 0.8(8) | 2.1(7) | 2.2(6) |
| Latin America | 8.7(4) | 6.9(4) | 6.8(4) | 4.7(3) | 4.9(4) | 4.1(5) | 3.7(7) | 4.0(6) | 3.3(8) | 3.3(7) | 4.0(7) | 2.1(8) | 2.7(7) | 1.9(7) | 2.2(6) | 1.9(8) |
| Middle East | … | … | 3.0(7) | 2.4(7) | 2.6(7) | 2.2(8) | 6.1(4) | 5.7(4) | 5.9(4) | 4.5(5) | 1.7(8) | 3.8(5) | 1.3(8) | 2.3(6) | 0.9(8) | 2.1(7) |
| Asia & Oceania | 11.2(3) | 11.2(2) | 3.2(6) | 4.6(4) | 2.8(6) | 3.2(6) | 3.9(6) | 3.2(7) | 4.6(6) | 3.4(6) | 4.8(6) | 4.6(4) | 6.9(3) | 4.8(4) | 8.1(2) | 7.0(3) |

Sources: OECD, Historical Statistics of Foreign Trade, pp. 46-47, 60-61 for figures during 1965-85; OECD, Statistics of Foreign Trade (SeriesA), Feb. 1962, pp.54, 56; Aug. 1964,pp.66,68 for 1960 figures; OECD, Monthly Statistics of Foreign Trade (SeriesA), Jan. 1987,pp.52-53,66-67 for 1985 figures; Jan. 1990, pp. 52-53, 68-69 for 1990 figures; Jun.1997, pp.60-61, 78-79 for 1995. In 1995 figures, NorthAmerica includes Mexico; Oceania & Japan includes Korea.

trading in order to raise funds in the Euro-dollar markets and increase exports in the region. After that period, relatively low wage rates and access the Europen market, resulted in increased investment in manufacturing, especially in England. As the European integration process advances, Japanese investment has been shifting to Germany in all sectors, including finance, research and manufacturing. During 1988-90, investment in Germany increased by a factor of three from $400 million to $1,200 million. The joint venture agreement between Mitsubishi group and the Dailmer Benz in 1990 symbolized the increasing importance of Europe to Japanese business.[63]

Japanese FDI has been often characterized as "aggressive" in the sense that the targeting of industries and regions has been consciously harmonized with structural change in the domestic economy. The more normal "reactive" strategy allows the timing and direction of FDI to be determined by the stage of development and the product cycle in importing countries. The Japanese state perceives the interdependent global economy as being hierarchically

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(62) Intereconomics, May/June 1993, p.124; James C. Abegglen, Sea Change: Pacific Asia as the New World Industrial Center (New York: Free Press, 1994), p.212.

(63) Stephen Thomsen and Phedon Nicolaides, The Evolution of Japanese Direct Investment in Europe: Death of a Transister Salesman (New York: Harvester Wheatsheof, 1991); Sueo Sekiguchi, "Japanese Direct Invetment in Europe," in Loukas Tsoukalis and Maureen White, eds., Japan and Western Europe: Conflict and Cooperation (New York: St. Martin's Press, 1982), pp.162-72; Henri-Claude de Bettignies, "Japan and E.C. 92," in Garby and Bullock, eds., Japan, p.86.

comprised of two worlds: industrialized countries and developing countries. The two worlds, according to Japanese views, are linked by the international division of labor. Japan's foreign economic policies, accordingly, must change as Japan shifts from a developing to an industrialized economy. During the 1950 s and 60 s, when Japan received economic assistance from the World Bank, the major concern was to improve Japan's weak position in the international division of labor. Economically, defeat in the war meant not only relegation to developing status but also a loss of the benefits derived from the international division of labor. The Japanese government believed that the state had become weak after the war, because it had lost

> foreign territories and spheres of influence [which] had been for some time brought into a division-of-labor relationship with [Japan]. . . [T] he foundation for the development of a peaceful Japanese economy will be greatly weakened by the loss of profits from industrial diversification within spheres of influence, unless it becomes possible to trade freely, without regard for national boundaries.(64)

In this context, other developing countries were regarded as simply competors, which might threaten Japan with their catch-up industries. MITI regarded the catch-ups as the "dilemma of foreign aid" and proposed to provide government support to sectors such as infant industries, small-and medium-sized companies and agriculture, which were exposed to competition from developing countries.(65) This careful protection of domestic industries changed as Japan graduated from the group of economically developing countries. Since the 1970 s, MITI no longer regards economic cooperation as threatening a possible boomerang effect, but has started to accept it as a means of encouraging the further advancement of Japan's industrial structures within the international division of labor.[66] The oil crises confirmed the nation's position as a resource-poor but capital-rich country. A MITI official noted that:

> [The basic idea] behind our resource diplomacy is to meet people and make thing work... [Japan] has the technology, the capital and human resources to make us increasingly indispensable to developing countries who need our help.[67]

Therefore, the common arguments that the Japanese economy entered the age of FDI after the year one of Japanese FDI, in 1972, or following the Plaza Accord of 1985 ignores the aggressive character of Japanese FDI. Japan has used FDI aggressively since the 1950 s. Until the 1970 s, FDI was largely directed to resource devel-

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(64) Quoted in Akio Watanabe, "Southeast Asia in U.S.-Japanese Relations," in Akira Iriye and Warren I. Cohen, eds., The United States and Japan in the Postwar World (Lexington, Kentucky: The University Press of Kentucky, 1989), p.84 from Gaimusho Chosa-kyoku, Nihon Keizai Saiken no Kihonmondai [Basic Problems for the Reconstruction of Japanese Economy], (September 1946), p.42.

(65) Tsusho Sangyosho, Keizai Kyoryoku, 1964, p.42; 1968, p.141; 1969, p.105.

(66) Tsusho Sangyosho, Keizai Kyoryoku, 1971, p.125; 1977, p.174; 1978, p.89. While this change in MITI's view of Japan's position within the international division of labor first surfaced in a 1971 statement that protection for domestic industries should not retard developing countries' economic development, a clear rejection of the protectionist idea waited until the late 1970 s.

(67) Far Eastern Economic Review, September 28, 1979, p.64.

opment in Asia, including oil in North Sumatra, iron ore in Malaysia, the Philippines, and India, copper ore in the Philippines, and natural gas in Brunei. During the 1960 s mining and related manufacturing took 30 percent and 25 percent respectively of total investment. While natural resouce-related investment continued in the 1970 s (and expanded to non-Asian resources such as oil in the Middle East, bauxite in Brazil, cooper in central Africa and coal in western Canada) a shift to manufacturing occured in that period. Since the 1980 s, developing countries have provided cheap labor for Japanese assembly industries such as home electronics and automobiles. According to MITI's survey of almost 9,000 Japanese affiliates overseas, 64 percent of Japanese companies in Asia ranked the region's cheap labor as the most important incentive for investing in the area, while in North America and Europe the promotion of local sales was the first reason.(68) Japan's remarkably consistent and pragmatic bilateral bargaining with the the United States in such sectors as textiles, steel, consumer electronics, and automobile has not only contributed to keeping the world economy open to Japanese exports but has also provided breathing space for Japanese industries while they shift production to developing countries.(69)

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(68) Komiya and Wakasugi, "Japan's Foreign Direct Investment," p.51 ; Tsusho Sangyosho, Keizai Kyoryoku, 1992, pp.89-90. As a case of emerging intra-industry trade in the wake of Japan's FDI in Asia, see Peter A. Petri's description of auto industries in Asia, "The East Asian Trading Bloc : An Analytical History," in Frankel and Kahler eds., Regionalism and Rivalry, pp.41-43.

B. German Economy Embedded in Europe

German economy has been, since the outset of the post-war period, deeply and widely embedded in the regional economy of Europe, in which international economic exchanges among relatively highly industrialized countries are institutionalized at a supranational or inter-governmental level. Under these regional institutions, the German economy has been sheltered from interdependence shocks derived from the world economy, and thus its systemic vulnerability has been consistently lower than Japan's. Consequently, Germany's regional economic entanglement has been little informed by the necessity of responding to structural change in the international economy.

The scope of German economic interdependence has been much narrower than that of Japan for the whole period after the Second World War. The German economy's engagement with external economies has been regional and based upon intra-industry trade and investment. Thanks to strong intra-Europe economic institutions that ranged from the European Payment Union (EPU) in the 1950 s, a multilateral clearance system of trade-related payment, to the European Monetary System (EMS) since the late 1970 s, a man-

(69) On unlimited negotiations and their positive effects on economic openess, see Oye, Economic Discrimination and Political Exchange. For a succinct summary of Japanese trade strategies, see Peter J. Katzenstein, "Regions in Competition: Comparative Advantages of America, Europe, and Asia," in Haftendorn and Tuschhoff, eds., America and Europe in an Era of Change, pp.116-117.

aged exchange rate mechanism to create a zone of stability, the German economy has been set within the regional econoy and insulated from disturbances in global interdependence. In contrast to Japan's global-scope international position between Western industrialized and Asian developing countries, the German economy has been situated in a single layered European sphere by institutionalized exogenous forces.

Access to the large and stable market in Western Europe was essential for Germany's economic reconstruction following the war, and participation in European integration was the precondition for that access, which was needed to compensate for the loss of pre-war eastern European markets.[70] Chancellor Konrad Adenauer's belief that "The German question can only be solved under a European roof" was largely shaped by economic, political and security conditions in Europe immediately after the war.[71]

In integrating Germany into Western Europe, the United States played a less direct role than it had in Asia. In the former it took "patronal leadership", while exercising "remote control" in the latter.[72] In Europe, the U.S. limited itself to being a benign investor, providing seed money for regional institutions to deepen economic

(70) Charles Maier, ed., The Marshall Plan and Germany: West German Development within the Framework of the European Recovery Program (New York: Berg, 1991); Michael J. Hogan, The Marshall Plan: America, Britain, and the Reconstuction of Western Europe, 1947-1952 (Cambridge: Cambridge University Press, 1987), especially pp. 287-90.

integration, rather than directly helping to create trade and investment relations. Funds were granted through the so called Marshall Plan (1947-52), formally the European Recovery Plan (ERP), to provide American credits to compensate for Europe's massive dollar deficit. Secretary of State Marshall said "This [economic recovery] is the business of the Europeans. The initiatives, I think, must come from Europe."(73) Of the institutions created with American sponsorship and European initiative, the EPU contributed most to German integration into Western Europe. The EPU led to currency convertibility in the late 1950 s and to the Common Market in the 1960 s, both of which cemented Germany's international postion in West Europe.

The Marshall Plan aid provided seed money to build regional institutions through which the Germans could become Europeans without raising fears among West European countries, especially France, of restored German economic autarky and asymmetrical in-

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(71) Quoted in a speech by the Ambassador of the FRG, Juergen Ruhfus, "The Role of the United Germany in the United Europe," in German Information Center, Statements & Speeches, March 6, 1991, p.3.

(72) The term "patronal leadership" is from Klaus Knorr, The Power of Nations: The Political Economy of International Relations (New York: Basic Books, 1975), pp.25-26. "Remote control" was quoted in Cumings, "Japan's Position in the World System," p.40.

(73) Quoted in William Diebold, Jr., Trade and Payments in Western Europe: A Study in Economic Cooperation 1947-51 (New York: Harper & Brothers for Council on Foreign Relations, 1952), p.4.

terdependence. That is, only by building regional economic institutions, could America make Germany's economic recovery and its political integration within Western Europe compatible.[74] In this context, the systemic effects of the Marshall Plan on the German international position are much more important than its economic effects on the German recovery.[75] More specifically, the Marshall Plan and other economic assistance from the United States played crucial roles in establishing the institutions that embedded the German economy in Western Europe, particularly through the export of manufactured goods that replaced American products. In the words of Charles Maier, the Marshall Plan "served, in a sense, like the lubricant in an engine--not the fuel--allowing a machine to run that would otherwise buckle and bind."[76]

The EPU was one of the institutions of the Marshall Plan period most crucial in determining the German international position.

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(74) A similar argument can be found in John Gimbel, The Origin of the Marshall Plan (Stanford: Stanford University Press, 1976); Michael J. Hogan, "European Integration and German Reintegration: Marshall Planners and the Search for Recovery and Security in Western Europe," in Maier, ed., The Marshall Plan and Germany, pp.115-70.

(75) For a helpful discussion of the macro-and micro-economic effects of the Marshall Plan on German economic recovery, see Werner Abelshauser, "American Aid and West German Economic Recovery: A Macroeconomic Perspective," in Maier, ed., The Marshall Plan and Germany, pp.367-409; and Knut Borchardt and Christoph Buchheim, "The Marshall Plan and Key Economic Sectors: A Microeconomic Perspective," in ibid., pp.410-451.

Michel Hogan described the EPU as "the plan's greatest triumph."(77) The EPU, established in 1950, was a multilateral clearing house designed to facilitate intra-European trade. Before 1950, intra-European trade and payments were based upon bilateral agreements or on a sophisticated form of international barter, both of which blocked smooth flows of commoditities within Europe. The first initiative to expand bilateral payment agreements into a multilateral system of intra-European payments came in 1947 from the Benelux countries. The beginning of the Marshall Plan gave the program new momentum by shifting the debate over multilateralization of payments to discussion of the multilateral use of the Marshall funds.(78) Under the EPU, various claims and obligations arising from intra-regional trade were settled exclusively by a country's overall postion toward all other trade partners, regardless of its earnings and expenditures. Debts of less than a certain amount were completely covered by an automatic grant of credit through a common pool. If the debt exeeded the credit grant, as in the German crisis in 1950, part of it was covered by credits and part by payments of gold or dollars. The United States provided the common pool with $350 million of capital, which was used to give credit lines to deficit

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(76) Charles S. Maier, In Search of Stability: Explanations in Historical Political Economy (Cambridge: Cambridge University Press, 1987), p.173.

(77) Hogan, The Marshall Plan, p.293.

(78) Robert Triffin, European and the Money Muddle: From Bilateralism to Near-Convertibility, 1947-56 (New Haven: Yale University Press, 1957), pp.147 and 151.

countries. American aid paid 22 percent of net settlements during the period of the German crisis in 1950-51. The administration of settlements was carried out by a multilateral European organization, the Bank for International Settlements (BIS), with cooperation from the central banks of the participating countries. The multilateral clearing mechanism provided substantial incentives to member countries to eliminate all discriminatory practices in trade. By August 1956, 89 percent of intra-European imports had been freed of all quantitative restrictions, while in Japan, only 16 percent of imports came in without tariffs.(79) Since, unlike the IMF, the BIS did not require member countries to deposit gold or hard currencies to overcome their balance of payment problems, the EPU laid the fundamental basis for currency convertibility.

The U.S.-backed multilateral trade payments mechanism not only resolved Europe's chronic dollar and gold shortages and led to the convertiblity of European currencies, it also transformed the almost closed German economy into one of the most open economies in Western Europe. Western Europe's dollar deficts from 1945 to 1948 was directly related to Germany's inability to export capital goods within Europe at a time when the reconstruction boom

(79) NHK Shuzaihan, Nihon, Doitsu-Futatsu no Sengo Keizai [Japan and Germany: Two Postwar Histories](Tokyo: Nihon Hoso Shuppan Kyokai, 1988), pp.76 and 88; Raymond Frech Mikesell, Foreign Exchange in the Postwar World (New York: Twentieth Century Fund, 1954), pp.100-133; Diebold, Trade and Payments, pp.87-132; Triffin, Europe and the Money Muddle, pp.168-207 (figures are quoted from pp.203 and 207).

swelled demand for capital goods from the United States. American policy-makers calculated that "Reintegrating Germany into the pattern of international [trade] would reduce the dollar deficts and allow a rapid reduction in Marshall Aid, would accelerate the economic recovery elsewhere in Western Europe, would reduce the burden of Germany on the American public purse and, above all, would tie it politically to the West." Although the EPU was in conflict with the Bretton Woods goal of creating a world-wide multilateral trade and payments system, and divided the world into two separate currency blocs (the Western European countries and their extra-European currency areas on the one hand, and the dollar zone on the other), Germany was "locked in" the regional system. Furthermore, discrimination against dollar imports was extensive until the mid 1950 s, when the Organization for European Economic Cooperation (OEEC), the predecesor of the OECD, relaunched trade liberalization programs.[80]

The EPU's effect on German trade was striking. In the late 1940 s, Germany, under leadership of Economics Minister Ludwig Erhard, was trying to transform its export structure from dependance on raw materials, especially coal, to reliance on manufactured products. Known as the Godfather of the German economic miracle during the 1950 s, Erhard removed almost all government controls over the German economy. However, as structural change

(80) Alan S. Milward, "The Marshall Plan and German Foreign Trade," in Maier, ed., The Marshall Plan and Germany, p.453-54, 478.

progressed, the German economy needed to import a wide variety of raw materials and semi-finished goods. Foodstuffs and raw materials accounted for 45 and 30 percent of German imports in 1950. When prices of raw materials rose sharply after the outbrak of the Korean War, German purchases, primarily from sterling bloc countries covered by the EPU, exhausted its credit in 1950. The United States replenished the fund with an additional $120 million, following Acheson's policy on the EPU that "the US will back them up." Germany became the first recipient of the special credit beyond the set quota. Thnaks to the American assistance, the German economy started to run surpluses with other European countries by 1952. German exports grew at average annual rate of 30 percent between 1950 and 54 ; Germany's production index rose from 87 in July 1949 to 137 in July 1952.(81)

The Western European market dominated German international trade during the 1950 s. Three-quarters of manufactured exports went there in 1951, 60 percent in 1959. Exports to North America were quantitatively unimportant, making up 15 percent and 19 percent of European Exports in the same years.(82) The major importers of German goods were not members of the European

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(81) Thomas Schwartz, "European Integration and the 'Social Relationship' : Implementating the Marshall Plan in the Federal Republic," in Maier, ed., The Marshall Plan and Germany, pp.205-12 (Qotation is from p.206.) ; Jentleson, The Pipeline Politics, p.70 ; Karl Hardach, The Political Economy of Germany in the Twentieth Century (Berkeley : University of California Press, 1980), pp 172-73.

Coal and Steel Community ( ECSC) but other European states which belonged to the EPU but were to become members of the future European Free Trade Association (EFTA). In spite of their membership in the ECSC and their eventual signing of the Treaty of Rome, France and Italy protected their markets more vigorously than did Germany's smaller industrialized neighbors. Austria, Belgium, the Netherlands, Norway, Sweden and Switzerland imported large amounts of capital equipment, such as machinery, transport equipment, chemicals and metals, from the Federal Republic during the investment boom of the 1950 s. In the early 1950 s, these highly industrialized small European countries absorbed one third to 40 percent of increases in German exports. The EPU made this possible. Demand from Brazil, South Africa, and other extra-region countries for German capital equipment was much less stable than that from Western Europe, partly because bilateral trade agreements did not present the same opportunity for uninterrupted exports as did the multilateral mechanism of the EPU.[83]

Germany's international economic interdependence continued to evolve within the region after the high growth period of the 1950 s. Hans-Dietrich Genscher, who served as foreign minister for 18 years from 1974 to 1992, succeeded to Adenauer's legacy of regional integration. He often stated that "we Germans must embed our national interests in European interests."[84] German international trade

(82) Milward, "The Marshall Plan and German Foreign Trade," pp.455-59.

(83) Milward, "The Marshall Plan and German Foreign Trade," pp.467-74.

has been faithful to this policy. In general, European intra-regional trade has been extremely high. Intra-regional trade accounted for 59 percent of total trade in the EC in 1989, while in East Asia the figure was 37 percent, partly due to Asia's high dependence on the American market.(85) Western European intra-regional trade has been remarkably stable since the 1930 s, while the regional share of East Asia's trade has decreased constantly.(86) Among the European industrialized countries, Germany has been the most entangled in the regional economy. As Table 2 shows, Germany's intra-regional exports have been consistently high since the 1960 s, accounting for more than 60 percent of total German trade. The Netherlands alone has been a more important to German trade than all of Asia combined. During the 1970 s and 1980 s, while French and Italian exports to the EC as a percentage of their total exports stagnated or fell slightly, in spite of the expansion of EC membership, and Britain's grew only slightly, German regional exports grew by over 15

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(84) Cited in Nicholas Colchester and David Buchan, Europower: The Essential Guide to Europe's Economic Transformation in 1992 (New York: Times Books, 1990), p.209.

(85) Jeffrey Frankel, "Is a Yen Bloc Forming in Pacific Asia?" The Amex Bank Review 18,9 (November 1991), 2.

(86) Long-term regional interdependence is measured here using a gravity coefficient that gauges the extent of trade biases toward particular partners relative to the neutral assignment of trade across all partners. For more details and technical discussion on this measurement method, see Peter A. Petri, "The East Asian Trading Bloc: An Analytical History," in Frankel and Kahler eds., Regionalism and Rivalry, pp.23-26.

percent. As a result, Germany has had the largest share of the Europe market, accounting for more than a quarter since the early 1980 s, while France's share has been around 15 percent.[87] Germany's regional embeddedness has been solidified by lower dependance on the Atlantic relation than any other European country. For example, Germany's share in foreign direct investment in the United States has never exceeded 10 percent, while Britain's has been around 30 percent, and the Netherlands', 20 percent. The Netherlands, Belgium and Luxembourg (the Benelux countries) have a larger share of German trade than all North American countries combined, including the United States.[88] The German Ambassador to the United States encouraged--and discouraged--further deeping of Atlantic relations between Germany and the United States by explaining the internationalization of German trade to a group of American businessmen: "The internationalization and even globalization of our economies is increasing every day.

Every third mark of our GNP is earned by exports, 60 percent of them within Europe. Our economic well-being, indeed our na-

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(87) Andrei S. Markovits and Simon Reich, "Should Europe Fear the Germans?," in Michael G. Huelshoff, Andrei S. Markovits, and Simon Reich, From Bundesrepublic to Deutschland: German Politics after Unification (Ann Arbor: The University of Michigan Press, 1993), pp.277-278.

(88) James Sperling, "A United Germany, a Single European Economic Space, and the Prospects for the Atlantic Economy," in Carl F. Lankowski, ed., Germany and the European Community: Beyond Hegemony and Containment? (New York: St. Martin's Press, 1993), pp.181-189.

tional future, is therefore closely linked to the development of the rest of Europe and especially the European Community."[89] Unlike Japan, Germany has not spread trade between industrialized and developing countries, or sought to balance intra-regional and extra-regional trade.

Furthermore, German direct investment abroad has been neither aggresive nor strategically linked with international trade. The prime motive for German industries investing abroad is to take advantage of market opportunities through local production, rather than to benefit from the international division of labor. FDI started late and developed slowly. It was prohibited by the Allies until 1951, and even then German business remained reluctant to rebuild overseas investment. Only about DM 400 million was invested up to 1955, rising to DM 1 billion between 1963 and 65, and DM 2.5 billion in 1970. On the other hand, foreign nationals invested over DM 21 billion in Germany during the 1960 s, which was almost equal to the amount of German FDI during the 1950 s and 60 s.[90] In the 1980 s, successful domestic manufacturing industries such as chemical, automobile, and electrical engineering invested in both developed and developing countries,[91] and the German financial sector increased its FDI in non-European industrial countries, especially the United States, but in the 1990 s, the trend has been in favor of regional concentration (see Table 3).

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(89) A speech by Immo Stabreit, "Germany, Europe and Transatlantic Partnership (Feb.19, 1993)," in Statements & Speeches 14,2 (n.d.), p.2.

(90) Hardach, The Political Economy of Germany, p.194.

In sum, institutionalization seems to have succeeded in taming German economic power. While Germany's systemic vulnerability in the world economy has been much lower than Japan's, dependence on the regional economy has made Germany vulnerable to retaliation within Europe.[92] Since the 1980 s, more than 50 percent of Germany's economy, whether measured in terms of the national economy or industrial output, has depended on trade. Which makes Germany twice as vulnerable to systemic collapse in Europe as Japan, with 25 percent dependence on global trade, is to a failure of the world economy.[93] German policy-makers have been fully aware of regional vulnerablity and opportunity. The new foreign minister, who took office in 1992 after Genscher, emphasized that:

> Only if we are firmly anchored in Europe can Germany find domestic balance and full capability to act. This is an impressive lesson to be derived from our past as well as from our knowledge of economic power factors in comparison with Japan and the United States of America.[94]

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(91) Jörn Keck and Henry Krägenau, Japansche und Deutsche Direktinvestitionen im Ausland: Bestandsaufnahme und Vergleich, Mitteilungen des Institut für Asienkunde Hamburg, Nummer 71 (Hamburg: Institut für Asienkunde Hamburg, 1975); Jamuna P. Agarwal, Andrea Gubitz, and Peter Nunnenkamp, Foreign Direct Investment in Developing Countries: The Case of Germany, Kieler Studen 238 (Tübingen: J.C.B. Mohr, 1991).

(92) For trade structure in Western Europe, see Friman, Patchwork Protectionism, pp. 142-146.

(93) Komiya, Japanese Economy, p.77.

## 4. Conclusion

This analysis has stressed the differing degree of systemic vulnerability that the Japanese and German states have encountered in the process of changing international structure. Japan's liberalization of development cooperation policy since the mid-1970 s can be attributed to the transformation of the international economic structure.[95] When we bring Germany in, we have to ask how structural change in the international system can have led these two functionally delimited jun ior partners of the United States to adopt such very different paths in their foreign economic policies toward developing countries. Regional embeddedness, I argued, provide us with an answer to the puzzle derived from international structural explanations. Japan's policy objective since the mid-1970 s, when the policy change took place, has been to share the cost of international public goods commensurate with its economic power. In sharing the international burden, special emphasis was put on stable development of North-South relations. Germany, in striking contrast, has been situated within a region of Europe whose stable institutions have insulated the state from international economic disturbances. Vast amounts of intra-industry trade and investment

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(94) A speech by Kinkel, "Responsibility, Realism: Providing for the Future German Foreign Policy in a World Undergoing a Process of Restructuring (March 19, 1993)," in Statements & Speeches, 14,5 (n.d.), p.3.

(95) David A. Lake, Power, Protection, and Free Trade: International Sources of U.S. Commercial Strategy, 1887-1939 (Ithaca: Cornell University Press, 1988).

within the region have created a zone of stability and growth unlike anything Japan can hope for. Instead of calibrating its DC policy to maintain the existing international economic order, the German state took advantage of development cooperation in realizing the national economic interests. This paper implies that the post-Cold War international order has been more afected by vulnerability that derives from interdependence process rather than by power that is structurally determined.