Reevaluating Japan's Economic Vision and Its Post-War Legacy

By Shihoko Goto

Since the end of World War II, Japan's national defense strategy has been dependent on its relations with the United States. The U.S.-Japan security alliance, signed in 1951 concurrently with the Treaty of San Francisco, remains at the heart of Japanese security policy to date. In contrast to its security reality, however, Japan's economic posture has never followed in the footsteps of the United States or aligned fully with the interests of Washington. Over the past 75 years, Japan's model of growth has faced considerable challenges, and its shortcomings are all too apparent. At the same time, the legacy of the Pacific War on the economic front is that Japan's policy choices have not just succeeded in lifting the country rapidly out of ruinous defeat, but have also provided a roadmap for a growth that has proved attractive to other countries across Asia, including its former foes. As the risks of growth models pursued by the world's two biggest economies today, Japan's vision for development may turn out to be the starting point for considering alternatives that follow neither the United States nor China.

In contrast to the United States, Japan pursued its own economic independence. Economic regeneration had been at the forefront of Tokyo's interests, especially since its defense strategy had been so closely intertwined with Washington's approach. Forfeiting security independence had been seen not only as a necessary sacrifice, but actually as a strategy that would allow the country to concentrate on economic regeneration, and it had been at the front of the reconstruction policy under Japan's first post-war Prime Minister Yoshida Shigeru. At the same time, the post-war leadership did not refute the ideals of capitalism promoted by the United States per se, but rather they shifted Japan's priority to collective gain instead of focusing on protecting the profitability of individual corporations and investors.

Espousing collective growth and social development

The 1993 publication of the *East Asian Miracle* by the World Bank was nothing less than a celebration of the Japanese approach to growth that highlighted Tokyo's success in leading the way to an alternative path to expansion focused on collective growth. The study maps not just Japan's success in recovering from defeat and its flourishing from 1965 to 1990, but also the rapid economic rise of the rest of Asia, even if they did not follow the U.S. roadmap for growth ultimately based on the success of individuals. Certainly, Japan's approach for economic expansion proved to be more attractive to South Korea, Taiwan, Singapore, and others. Since then, however, the struggle with Japan's sluggish growth for nearly two decades has led to a shift in the narrative, namely that the Japanese model failed to remain competitive in a highly globalized economy, especially after the end of the Cold War that led to a surge in trade across borders.

Yet as China succeeded in overtaking Japan as the world's second-largest economy by 2010, Beijing's approach to state capitalism has clearly expanded on some of the core elements that made Tokyo so successful initially, most notably government intervention policies in industrialization and the close cooperation between government and business, as well as financial markets. Over the nearly three decades since Japan's economic heyday, the popular narrative has been that Japan's glorious past is exactly that—Japan's economic peak is now history. Yet the surge of China and the fears of Chinese domination on the one hand, and concerns about U.S. retreat as a Pacific power on the other hand, has actually increased Japan's importance and has given greater impetus for Tokyo to be a leader in ensuring stability in the regional order.

At the same time, there has also been renewed interest in some of the core economic values that continue to drive Tokyo's policies, including a focus on stability and the financial status of companies and their employees, rather than the U.S. system that looks to enhance profits for investors. Certainly, the outbreak of the coronavirus pandemic worldwide in 2020 has heightened interest in what makes countries resilient to unanticipated disasters and capable of dealing with the fallout of crises. The fact that East Asia has been more successful than other regions not only in keeping the COVID-19 spread at bay but also in preventing the pandemic from leading to social disruption has not been lost to the world as countries continue to grapple with both the health crisis stemming and the economic downturn as well. Indeed, COVID has led to a fundamental rethinking of what constitutes economic success, which in turn has spurred renewed interest in the focus on collective growth and economic security that has been Japan's divergent path for success since the end of the Pacific War.

It is, however, none other than China's rise that has actually lifted the importance of Japan as a regional power beyond its economic standing, as Japan's commitment to the rules of the international liberal order has elevated Tokyo's strategic position in ensuring regional stability and working as a partner to the United States on the economic front.

Reassessing economic needs and wants

From development assistance to trade rules and banking regulations, the post-war rules of economic engagement have essentially mirrored the values of the United States, which have in turn been seen as universal values. Having joined the World Bank and the IMF after signing the San Francisco Peace Treaty, Japan's rapid economic recovery would have not been possible without support from the Bretton Woods institutions for which the United States remains the single largest shareholder to date. By the 1970s, Japan had transformed from a borrow to a major creditor nation, and its voice at international financial institutions grew accordingly, not least as a founding member of the Asian Development Bank established in 1966. But even as its influence grew, Tokyo's objective had never been to challenge Washington's position outright. Indeed, even at the height of the trade war with the United States during the 1980s into the early 1990s, there had been no real challenge to the international financial order that had been determined by Washington. Granted, Tokyo had proposed the idea of an Asian Monetary Fund following the Asian financial crisis in 1998, an idea that was quickly shelved amid Washington's objections to an institution that could compete with the IMF.

Washington's response to the creation of the China-led Asian Infrastructure Investment Bank in 2014 had been similarly cool, even as key U.S. allies in Europe and Asia, including Britain, France, Germany, and Singapore, eventually joined the AIIB. While the United States and Japan remain among the few major countries that have not signed on to the Chinese development bank, it has become clear over the past six years that the institution can play a significant role in filling a much-needed gap in financing infrastructure projects across Asia. Moreover, unlike some of the Belt and Road Initiative projects, AIIB projects actually align with the strategic goals of both Tokyo and Washington to provide the foundations of stability in the region. But while the United States increasingly views China and its ambitions through the vision of competition, Japan and other Asian nations take a decidedly less hawkish approach to Beijing when it comes to economic relations. For Japan in particular, there is growing confidence that Tokyo could actually compete head-on with China when it comes to quality infrastructure development and meeting the needs of countries endeavoring to emerge out of the middle-income trap.

Moreover, unlike Washington which views Beijing more from the perspective of systemic competition, Japan may be able to leverage the advancement of new technologies including AI and robotics to regain its competitive edge. Like the United States, Japan too needs to ensure the establishment of global rules that ensure a level playing field and reciprocity. After all, successful multinationals are no longer as dependent on government protectionist measures and subsidies as they once had been and now require a rules-based international order that will allow them to remain competitive. So although Japan's economic foreign policy had veered away from that of the United States since the end of the Pacific War, the interests of the two countries have converged more as they rally together in pursuit of international standards of economic engagement.

Limitations of cross-border cooperation

Japan's own experiences not just in pursuing industrial policy as a means to jump-start post-war growth but also in its success in nurturing companies that eventually no longer had to depend on government subsidies has ultimately led to the alignment of economic objectives between Tokyo and Washington. The evolution of Japan from a disruptive competitor to a rival with a shared vision for international economic order can be heralded as a win for the United States over the course of the past 75 years. At the same time, it positions Tokyo to be a model for economic evolution, insofar as it has ultimately come to embrace open markets, transparency, and the rule of law to secure its own future growth. In short, Japan could be the bridge-builder between the United States and Asian nations, including China, in embracing the rules-based order.

Certainly, Tokyo has already begun to take that path through its leadership role in pushing forward with the Trans-Pacific Partnership agreement. The withdrawal of the United States from the ambitious free trade agreement was expected to lead to its demise, but it has actually become the source of cautious optimism. Hopes remain that not only will Washington consider rejoining the pact under a new leadership, but that Beijing too will aspire to become a member country as a means to advance its own policies for longer-term growth as well.

Still, the legacy of the Pacific War and the politicization of historical memory will continue to hamper Japan's economic relations in Asia moving forward. Far from improving with the passage of time, Tokyo's relations with Seoul are in a nadir as issues related to suffering under colonization and reparations for wartime subjugation now spill over into economic and foreign policy decisions. What's more, the prospect of effective intervention by a third party, most notably the United States, appears to be unlikely even when Japan and South Korea have more common economic and security interests now in light of Chinese aggressions on the one hand and the increasing reluctance of the United States to act as a Pacific power on the other.

At the same time, the closing of national borders in order to deal with the global health crisis in 2020 has only added to the rise of economic nationalism across the region. The COVID-19 pandemic has exposed the intrinsic vulnerabilities of supply chains that assume seamless logistics and over-dependence on one particular country, especially China. Certainly, the pandemic has pushed global manufacturers to relocate away from China in an effort to mitigate risks as well as to reduce costs. The real winner of the exodus to date has undoubtedly been Southeast Asia, since the cost for multinationals returning their production bases back home remains costly. At the same time, there has been a surge in nationalism across the region that is impacting economic policy decisions.

In the decades following the end of the Pacific War, the common thread uniting a disparate Indo-Pacific has been a shared commitment to economic recovery and expansion that transcended linguistic, cultural, and political differences. As the economies of East Asia in particular continued to expand and the differences between them narrowed, interest in exerting influence in foreign policy increased. That trend had been on a steady upswing since China surpassed Japan as the world's second-largest economy, but this momentum is likely to increase further amid the challenges of dealing with a global pandemic. The emergence of travel bubbles that allow open passage between countries that have been able to keep the virus in check, and thereby excluding others, is likely to be swayed by political as well as health risk assessments.

The legacy of war remains a stumbling block for Japan to act as an effective regional economic leader, yet the role that Tokyo can play as a regional economic stabilizer continues to rise. Nevertheless, Japan may be able to forge a greater role in providing an alternative vision for growth and economic stability amid growing tensions between the world's two largest economies.

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