

5. Factors Limiting Integration

5.1 Japan

Japan's international economic relations are dominated by two factors: its lack of natural resources and the lingering effects of its role in World War II. While Japan has remained in close alliance with the U.S. since the War, tension between the two have increased since the early 1980s because of two issues. The first is the U.S. perception that Japan does not play a role in maintaining global security that is commensurate with its position as an economic superpower. To counter these inferences, Japan made a significant financial contribution to the Gulf War effort, allowed its troops to serve abroad in non-frontline activities as part of the UN mission to Cambodia and steadily increased its expenditures on overseas aid.

The second is the persistent trade imbalance between the two countries. After voluntary export restraints and market opening measures on the part of Japan reduced the U.S.'s trade deficit vis-à-vis Japan only slightly, attention focussed on "structural" impediments in Japan against imported goods. Japan and the U.S. have conducted a series of negotiations pertaining to these impediments, as well as on the U.S. budget deficit and low savings rate. These negotiations have resulted in a series of pledges by the Japanese Government to open and stimulate its economy and by the U.S. Government to try to reduce the size of its budget deficit, including through the July 1993 agreement to establish the United States-Japan Framework for a New Economic Partnership, which in turn has led to a number of sector-specific, market opening agreements.

The primary focus of Japanese international economic relations for the foreseeable future will continue to be its ties with the U.S.. This will prevent it from taking a position at the head of any movement to integrate any formal grouping of Asian economies. That said, it will continue to play an integral and active role in the increasing economic interdependence of the North Asia region. This is because of the positive impact of unleashing market forces in China and, in due course, Russia.

Japan's identification with the U.S. and the western camp during the Cold War period constrained the development of relations with China and the former Soviet Union. Relations, particularly economic ties, between Japan and China have improved steadily since diplomatic ties were restored in 1972; the main exception being the temporary halting of aid flows for the year following the Tiananmen massacre. The relatively quick resumption of economic relations following Tiananmen was predicated on the view that a stable China is important for regional stability and Japanese