Japanese involvement in Central Asia in the early post-Cold War era (1991-1997):

A Review from the Perspective of Neo-Classical Realism

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Abstract

This dissertation examines the Japanese foreign policy towards Central Asia (CA) from 1991 to 1997. Through the theoretical lens of neo-classical realism, this research analyses the Japanese attempt in the period to transfer economic power into influence, both political and economic, in CA. In their shaping of foreign policy, the politicians are interpreted as decision-makers, who act on the perceived the change of national power in the international arena. The bureaucrats are understood as policy-makers, who compose and implement policies according to the politicians' guidance. The big businesses were targeted by the policy, especially Official Development Aids (ODA) policy, to be mobilised in order to amplify Japanese influence in the region. Taking the above three actors as leads, this research reveals the problems faced by Japan in the 1990s that affected the effectiveness of the foreign policy. The accuracy of the perceived power change, the stability of domestic politics, and national power supporting direct foreign investment abroad are the keys needed for a rising nation to achieve the transition from wealth to power. By studying the Japanese precedents in CA, this research may also provide some reference to the rising nation with an increasing presence in the region, namely China.

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List of Abbreviations

ADB	Asian Development Bank
BRI	Belt and Road Initiative
CA	Central Asia
EBRD	European Bank for Reconstruction and Development
EC	European Community
JICA	Japan International Cooperation Agency
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
ODA	Official Development Assistance

Introduction – Why Central Asia and why from 1991 to 1997[1]

My research interest in Japanese involvement in Central Asia (CA)[2] was triggered by my experience in the Silk Road Fund[3] during a 2019 summer internship. The Fund, in support of the Chinese Belt and Road Initiative (BRI), has been looking for possible cooperation with Japanese companies and financial institutions in third-country markets, especially in CA. However, it turns out that Japanese business activities in the region are very much limited. On the one hand, previous research[4] reveals that Japan has had a long and influential connection with CA since the end of the Cold War. On the other hand, and in striking contrast to the abundant Japanese Official Development Assistance (ODA), trading and investment in the region has been limited, betraying the hopes and expectations of the locals.[5]

The glaring gap between the high-profile effort of the Japanese government and the limited involvement of the Japanese private sector can be observed from the very early stages, and these undesirable beginnings haunted the Japanese presence in CA in the following years. This research focuses on the initial phase of the Japanese involvement in CA, from the end of the Cold War in 1991 to 1997. Japan had no clearly

[1] Due to the closure of the Bodleian Library system during the COVID-19 pandemic, some citations of this dissertation, marked N/A at the end, had to rely on the research notes and therefore are incomplete.
[2] In this dissertation, CA refers to Kazakhstan, Uzbekistan, Tajikistan, Kyrgyzstan, and Turkmenistan.
[3] Silk Road Fund Co., Ltd. mainly provides investment and financial support for trade and economic cooperation and connectivity under the framework of the Silk Road Economic Belt and the 21st-Century Maritime Silk Road Initiative.
Silk Road Fund, Overview, http://www.silkroadfund.com.cn/enweb/23775/23767/index.html (Accessed 5 March 2020)
[4] Nikolay Murashkin, Oscillate mildly: revisiting Japanese foreign policy in post-Soviet Central Asia (1991-2016), University of Cambridge, 2016. 11.
[5] Tomohiko Uyama, Christopher. Len, and Tetsuya. Hirose. Nihon No Chūō Ajia Gaikō: Tamesareru Chiiki Senryaku. Surabu Yūrashia Sōsho; 6. 2009. 10.

stated policy towards CA until Prime Minister Hashimoto Ryutaro presented the New Silk Road Diplomacy as the first-ever united Japanese CA policy in 1997.

Although this research focuses on a specific period of a particular topic, it is also a channel to a broader picture of that drastically changing era, in many senses. Internationally, 1991 was the year the Soviet Union collapsed; meanwhile, Japan was at the peak of the asset bubble. This research analyses how Japan tried to transfer its national power, mainly material resources represented by the booming economy, into political and economic influence abroad, especially in the newly created power vacuum, CA. Domestically, in 1993, the Liberal Democratic Party of Japan (LDP) lost their throne in the general election, marking the end of the long-lasting 1955 system. The Japanese bureaucrats had to cope with the first-ever non-LDP administration since the end of WWII.

The Japanese political system is known for the close collaboration between the politicians and the bureaucrats, where the bureaucrats draft and implement policy according to the politicians' instructions. Therefore, the two actors are usually regarded as policy-makers collectively.[6] The theoretical framework of neo-classical realism, with an emphasis on the structural level, enables more detailed scrutiny on the division of labour between the politicians and the bureaucrats. This research redefines the politicians as decision-makers and bureaucrats as policy-makers. This alteration clarifies the foreign policy-making process into a vertical sequence, where politicians make decisions based on perceived international power changes, and then the bureaucrats utilise the policy

[6] Yung H Park, Bureaucrats and Ministers in Contemporary Japanese Government. Japan Research Monograph; 8. Berkeley: Institute of East Asian Studies, University of California, 1986. 8.

tools to achieve the goals set up by the political masters. If the politicians are described as the drivers to holding the steering wheel, then the bureaucrats should be described as the engine of the "state power", the key variable of the neo-classical realism referring to the ability of the government to mobilise the economic power in pursuit of its foreign policy goals.[7]

Moreover, the theoretical framework of neo-classical realism also brings in the last piece of the "iron-triangle" in the Japanese political economy system after politicians and bureaucrats, namely the big businesses.[8] This research interprets the big businesses as social resources to be mobilised by "state power" in order to amplify Japanese influence in CA. In this scenario, ODA is redefined as a policy tool used by the government to encourage big businesses to follow foreign policy and increase Japanese presence in the region.

If one wishes to look through history and unfold the "black box" of the Japanese policy-making process, as well to explore and understand the connection between the Japanese government and private sectors, the Japanese policy towards CA serves as a more than ideal theatre. Targeting a newly created independent region since 1991, the Japanese CA policy was formed from scratch instead of evolving based on previous concerns. This brand-new journey provides us with an ideal channel to examine how Japan wanted to present itself to the international community and how Japan would carry out its foreign policy. Unlike other nations that were also created in the same period, CA

[7] Fareed Zakaria, From Wealth to Power : The Unusual Origins of America's World Role. Princeton Paperbacks. Princeton, N.J.: Princeton University Press, 1999. 9.
[8] Colignon, Richard, and Chikako Usui. "THE RESILIENCE OF JAPAN'S IRON TRIANGLE." *Asian Survey* 41, no. 5 (2001): N/A.

countries' location at the heartland of Eurasia brought more geopolitical importance to the region. The Japanese CA policy revealed where Japan envisaged the border of its influence should be and how to maintain it.

The conclusion of this dissertation summarises the problems Japan faced in this period, which ultimately led to the gap between the high-profile governmental efforts and limited private sector involvement. Moreover, the conclusion stretches from the Japanese precedents in CA and summarises what lessons China can learn from it as a rising power trying to increase its presence in CA as Japan tried 30 years ago.

This dissertation is structured in four chapters. The first chapter explains the research puzzle more explicitly, and three following chapters focus on the politicians as decision-makers, bureaucrats as policy-makers, and big businesses as targets to be mobilised, respectively. The following questions guide this research.

1) How can Japan's approach to CA from the end of the Cold War to the New Silk Road Diplomacy be best understood? How can we apply neo-classical realism to analyse the Japanese foreign affairs decision-making and policy-making process?

2) How did the Japanese politicians interpret the shift of power in the international arena around the end of the Cold War? What was the ambitious plan the Japanese politicians dreamed of concerning foreign policy towards CA?

3) How did the series of domestic political changes in the early 1990s affect the Japanese foreign policy-making process? Particularly when the first-ever non-LDP administration since 1945 came into power, how did the political earthquake

affect the collaboration between the politicians and bureaucrats? How did the bureaucracy react to their political masters' high expectations in CA?

4) What factors have restrained Japanese private sector's enthusiasm towards investing in CA? Did the traditional ODA (Official Development Aids) model encourage Japanese business involvement in CA or hinder further engagement instead?

To address the above questions in turn, this dissertation is structured as follows:

Chapter 1 introduces the background of this research, including the Japanese policy-making process and the existing explanations for Japan to increase its influence in CA. This chapter explains why neo-classical realism is an appropriate method to study Japanese foreign policy.

Chapter 2 focuses on the perception of external political changes from the politicians' perspective. This chapter analyses the Japanese involvement in the European Bank for Reconstruction and Development (EBRD) as a case study, describing the bigger picture of the post-Cold War world order envisaged by the Japanese politicians and their high expectations of the Japanese role in CA. The story of the EBRD also serves as the trigger for Japanese involvement in CA.

Chapter 3 zooms in on the domestic political changes from the bureaucrats' perspective by examining their changing role in the policy-making process. The establishment of the first-ever non-LDP administration in post-WWII history certainly caused a significant impact on the previous collaboration between the LDP politicians

and the bureaucrats. The civil servants had to adapt to their new political masters while trying to sustain their existing policy agendas and approaches. State power went through a radical evolution, if not revolution.

Finally, Chapter 4 brings big business, the last piece of the "iron triangle" into the spotlight. This chapter examines why Japanese companies were unable to create an influential presence in CA. Among all the reasons, the relationship between the companies and the ODA is worthy of more detailed scrutiny.

Chapter 1 – Understanding Japanese Central Asia policy in the early post-Cold War era

1.1 Literature review

Some existing studies jump to the New Silk Road Diplomacy presented in 1997 as the beginning of the Japanese involvement in CA, but ignored the previous Japanese engagement in the region and the evolution of foreign policy that lead to the birth of the New Silk Road Diplomacy later.[9] Although the existing research applies several methodologies to examine the Japanese CA policy, including geo-economics[10], energy security[11] and great game theory[12], the explanations are too narrowly focused on one specific motivation behind and underestimated the policy-making process itself.

Recent increasing Japanese involvement in Central Asia, marked by Prime Minister Abe Shinzo's visit to the region in 2015, is usually interpreted as a result of rising rivalry between Japan and China in the region.[13] However, this scholarly narrative underappreciates the long-existing Japanese presence in CA dating back to the end of the Cold War in 1991. Japan acknowledged the five CA countries on 28 December 1991

[9] Yue Wang, Xinying Li, The General Situation and Measures of Japan's Export Trade with Five Countries in Central Asia and the Enlightenment for China, *Contemporary Economy of Japan*, NO.2.2017 (Vol.212), 44, 44-55.

[10] Yuchen Gao, A Comparative Study of China's and Japan's Economic and Trade Strategies toward Central Asia from the View of Geoeconomics, Nanjing University, May 2018.

[11] Dengxue Huang, Hongzheng Liu, Study of Central Asia Regional Conflict and Stance of Foreign Powers, *Journal of Wuhan University of Science and Technology (Social Science Edition)*, Vol.21, No 1, February 2019: 14-19.

[12] Deliang Pang, Shengjun Liu, Evolution of Belt and Road Regional Countries' Trade with China and Japan, *Northeast Asia Forum*, No 6, 2016: 36-45.

[13] Samuel Ramani, Japan's Strategy for Central Asia, *The Diplomat*, 30 July 2015, https://thediplomat.com/2015/07/japans-strategy-for-central-asia/ (Accessed 25 March 2020)

three days after the collapse of the Soviet Union, and soon established diplomatic relations with all five countries from January to April in 1992.[14]

The Japanese government's efforts towards CA included both economic aid and political engagement. Japan started providing a large amount of Official Development Assistance (ODA) to the CA countries as soon as they were added to the OECD recipient list.[15] As CA's largest donor of ODA, Japan supported the CA countries in multiple ways during their transfer from a planned economy to a market economy.[16] Besides the economic aids, Japan also participated in the political agenda of the CA countries. Japan acted as an "umbrella" for the CA countries while they practiced gradual democratisation, shielding them from the radical political change that the United States and Western European countries had hoped from them.[17] By supporting the CA countries both economically and politically, Japan wanted to secure its position as the tutor and leader of the region, to become a "political powerhouse" with greater influence abroad.[18] The CA countries also welcomed the Japanese guidance and support because they wanted to learn from the Japanese post-war reconstruction experience.

As for the motivation behind the Japanese involvement in CA, there are several aspects listed below: energy concerns, economic cooperation, political motives, and shared historical and cultural heritage:

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[14] Jiangting Wang, the Evolution of the Japanese CA Policy and the Reasons behind, *International Forum*, Vol.16, No1, January 2014: 15.
[15] Tomohiko Uyama, 11.
[16] Chien-Peng Chung, "Japan's Involvement in Asia-Centered Regional Forums in the Context of Relations with China and the United States." Asian Survey 51, no. 3 (2011): 410.
[17] Tomohiko Uyama, 12.
[18] Lindsay Black, "Japan's Aspirations for Regional Leadership - Is the Goose Finally Cooked?" Japanese Studies 37, no. 2 (2017): 151-70. N/A.

Energy concerns:

As an island country with limited natural resources, especially hydrocarbon resources such as petrol and natural gas, Japan has been trying to diversify its supply of energy and decrease its reliance on the Middle Eastern countries.[19] The "Annual Report on Energy" published by the Ministry of International Trade and Industry (MITI) in 1993 clearly stated that CA has an abundant natural gas resource, and further encouraged Japanese energy companies to invest in the region.[20] In contrast to this, there is also an argument contesting that Japanese energy policy towards CA has been limited to elusive gestures rather than more practical energy import.[21] This argument further suggests that the pursuit of energy was only an excuse made up by the Japanese government to placate the taxpayers, who were upset about massive governmental expenditure in CA.[22]

Economic cooperation:

The Japanese government has been encouraging companies to invest in CA and further develop this region as a potential trading market.[23] In 1993 a MITI mission visited Kazakhstan promising that the Japanese government would attract more companies to

[19] Renshu Jin, Comparison on the Chinese and Japanese Economic Cooperation with Central Asian Countries, *Japan Journal*, Vol 3, 2016: 100.
[20] Jiangting Wang, the Evolution of the Japanese CA Policy and the Reasons behind, International Forum, Vol.16, No1, January 2014: 17.
[21] Dengxue Huang, Hongzheng Liu, Study of Central Asia Regional Conflict and Stance of Foreign Powers, *Journal of Wuhan University of Science and Technology (Social Science Edition)*, Vol.21, No 1, February 2019: 18.
[22] Jiangting Wang, the Evolution of the Japanese CA Policy and the Reasons behind, *International Forum*, Vol.16, No1, January 2014: 17.
[23] Ibid.

invest in the region. The labour force in CA has a high level of education, which was a particularly attractive factor for Japanese businesses.[24]

The local countries also had high expectations for Japanese investment in the region.[25] However, due to high transportation costs, and doubt on local stability and safety, Japanese companies were hesitant to engage in CA. With the exception of some small-scale uranium mining, there is little in the way of Japanese business taking place there to this day.[26]

Political motives:

The Japanese bureaucrats who drafted the CA policies themselves claim that as newly established states, the CA countries were like a piece of blank paper where Japan could demonstrate its diplomatic techniques from scratch.[27] A report published by the Japan Institute of International Affairs in 2003 also states that Japan treasured CA countries as a "rare-existence" that being Asian countries but having no unpleasant history with Japan.[28] Japan was also trying to amplify its political influence in CA to gain more support from the five countries on international affairs. For instance, CA countries supported Japan to become a permanent member of the United Nations Security

[24] Resources, Labor and Attachment to Japan in Central Asia, JETRO, https://www.jetro.go.jp/biznews/2012/04/4f7d59ac0ea60.html (Accessed 16 April 2020)
[25] Tomohiko Uyama, 10.
[26] Mahmudov Umid, Post Cold War Japanese Central Asia Policy and Strategy, Bulletin of Graduate Studies, Hosei University, October 2016: 74 65-90.
[27] Tomohiko Uyama, i.
[28] Suggestions on Central Asia, Japan Institute of International Affairs, March 2003, 7 https://www2.jiia.or.jp/pdf/russia_centre/h14_c-asia/03_kasai.pdf (Accessed 7 February 2020)

Council.[29]

Shared historical and cultural heritage:

Japan was aware of its cultural and ethnic proximity to CA nations which also shared Northeast Asian historical heritage.[30] It is commonly believed in Japan that the Buddhist religion was spread to Japan from India through CA regions and China. Japan and the CA region were both parts of the Silk Road, this shared historical heritage made CA more attractive to Japan. As Hashimoto Ryutaro addressed mutual cultural interest between Japan and CA:

Fortunately, these countries have great expectations of Japan as an Asian country, and at the same time, Japan has deep-rooted nostalgia for this region stemming from the glory of the days of the Silk Road.[31]

For Japanese politicians, CA appeared to be a "distant cousin" to Japanese civilisation due to shared Silk Road and Buddhist heritage. These sympathies of the Japanese decision makers became a cornerstone for the stable aid towards CA countries.[32]

[29] Yuan Zhou, Jing Shi, Japanese Official Development Aids to CA, *Development and Aid*, Vol 11, 2016: 90.
[30] Nikolay Murashkin, 2016, 257.
Asia (1991- 2016)
[31] Address by Prime Minister Hashimoto Ryutaro to the Japan Association of Corporate Executives, 24 July 1997 http://www.kantei.go.jp/jp//hasimotosouri/speech/1997/0725soridouyu.html (Accessed 18 May 2020)
[32] Nikolay Murashkin, 2016, 257.

1.2 The puzzle of "Gap"

The ODA is a useful tool to shed light on the connection between political and business interests. Japan joined the OECD's Development Assistance Committee (DAC) as its only non-Western founding member in 1961. Japan turned war reparations agreements into its most effective channel of re-engagement with its former Asian colonies.[33]

Traditionally, in terms of economic expansion abroad, Japan was usually pictured as 'Japan Inc.' by many scholars, a corporatist entity where politicians, bureaucrats and big businesses collude together, using ODA to blaze a trail in the targeted country for the following Japanese business activities there.[34] The ODA operation was explained as an "oyobimizu (priming water) model" where aids has no function other than draw more capital spring from the "pump" of private sector.[35]

However, the Japanese business activities were very much limited in CA, despite the fact that Japan was the most generous donor of ODA. The reality in CA suggests that there was a gap between official engagement, and private business involvement. As newcomers of the Asian countries' community, CA countries enjoyed a unique position in the Japanese ODA policy. Due to the limited size of the economy in CA countries, the Japanese policy-makers believed that the Japanese ODA would have a huge impact there.

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[33] Akiko Fukushima, 'Official Development Assistance (ODA) as a Japanese Foreign Policy Tool', in *Japanese Foreign Policy Today: A Reader*, ed. Takashi Inoguchi and Purnendra Jain (New York; Basingstoke: Palgrave Macmillan, 2000): 156.

[34] Orr, Robert M. The Emergence of Japan's Foreign Aid Power. New York: Columbia University Press, 1990. 140.

[35] Steven W. Hook and Guang Zhang, 'Japan's Aid Policy since the Cold War: Rhetoric and Reality', *Asian Survey* 38:11 (1998): 1055.

Therefore, CA countries were designed to be a "window of Japanese ODA".[36] However, the ODA model did not thrive in CA as it had done in other regions. In successful cases, the ODA provided by the Japanese government would create a better environment in the targeted country for the Japanese businesses to trade with or invest in. If economic profitability is the only standard by which to measure the ODA policy, then it has certainly been a failure in CA. Some of the Japanese policy-makers themselves also share the observation of the gap. Hirose Tetsuya, the first director of the office of CA in the Ministry of Foreign Affairs (MOFA), and Kawatou Tetsuo, the first Japanese ambassador to Uzbekistan and Tajikistan both note the gap between the governmental efforts and lack of engagement from the private sector, but neither of them examines the cause of it.[37] This gap is the research puzzle of the current study.

By solving this puzzle and finding out the reason behind ODA's failure through the lens of neo-classical realism, this research explains the ODA as a part of the state power to mobilise more material resources into the targeted area in pursuit of larger influence, both politically and economically.

1.3 Theoretical Framework

This research applies neoclassical realism to unfold the formation of Japanese foreign policy towards CA. Neo-classical realism inherited from classical realism that the ambition of a country's foreign policy is driven first and foremost by its material power

[36] Yuan Zhou, 86.
[37] Tomohiko Uyama, 10.

relative to other countries. [38] In this case, the most crucial reason for Japan's governmental input in CA starting from 1991 was the collapse of the Soviet Union and booming domestic economy.

Distinguished from structural realism's emphasis on security concerns as a nation's prior pursuit,[39] neoclassical realism further contests that a nation pursues the "maximisation of international influence".[40] Japan envisaged a tripartite structure of the U.S., European Community (EC), and Japan, ruling the world after the Cold War.[41] Therefore, Japan was keen to fill in the power vacuum created after the collapse of the Soviet Union and demonstrate its leadership in Asia to the newly independent CA countries. As Fareed Zakaria's famous book title "From Wealth to Power" indicates, the Japanese pursuit for a more significant role in the international area resonates with the proactive approach in the middle of its asset bubble from the late 1980s to the early 1990s.

Neoclassical realism further contends that the change of relative material power, the so-called systemic pressures, cannot directly impact on the foreign policy. The translation through intervening unit-level variables, such as decision-makers' perceptions and policy-makers' reaction, is the real factor behind shaping foreign policy. As Fareed Zakaria describes vividly:

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[38] Gideon Rose, "Neoclassical Realism and Theories of Foreign Policy." *World Politics* 51 No.1 (1998): 144.
[39] Sean M Lynn-Jones, Does Offense-defense Theory Have a Future? Note De Recherche (Groupe D'étude Et De Recherche Sur La Sécurité Internationale); 12. Montréal: Research Group in International Security = Groupe D'étude Et De Recherche Sur La Sécurité Internationale, 2001. N/A
[40] Fareed Zakaria, "Realism and Domestic Politics -- Myths of Empire: Domestic Politics and International Ambition by Jack Snyder." International Security 17.1 (1992): 177.
[41] Kaifu Toshiki, Budget Committee 4th Meeting, 3 April 1990.

States may be billiard balls, but each is made of a different material, affecting its speed, spin, and bounce on the international plane.[42]

Neo-classical realism points out two potential flaws in the transition from wealth to power. The first concept to be introduced is "perceived power change". Even if the relative change of power is objective facts, it is perceived by the decision-makers subjectively. Therefore, the perceived power changes, where the following foreign policy is based upon, is not necessarily accurate or timely ones. This research examines how the Japanese political elites saw the world after the Cold War with great expectation and later found the country in bitter reality. As presented in the second chapter, the striking contrast was the key to understand the starting point of the Japanese CA policy.

The second theoretical lens applied to the Japanese CA policy in this research is the difference between "national power" and "state power". In short, national power can be interpreted as material power in general, and state power is the ability of the government to mobilise economic power in pursuit of its foreign policy goals, usually more assertive ones.[43] By around 1991, Japan was enjoying its economic advantage as the booming second-largest economy, and was trying to transfer its wealth to influence. As the bridge of this transition, the ability of the Japanese government to compose and implement corresponding policies was greatly tested. The third chapter examines the turmoil in the policy-making process from 1991 to 1997, and how it influenced the Japanese CA policy, the key channel to amplify Japanese influence in the region.

[42] Fareed Zakaria, From Wealth to Power: The Unusual Origins of America's World Role. Princeton Paperbacks. Princeton, N.J.: Princeton University Press, 1999. 9.
[43] Ibid.

Among all the policy tools, the neo-classical realism theoretical lens leads this research to put more emphasis on the ODA policy. Among existing literature, Yuan Zhou's work summarised the evolution of the Japanese ODA towards CA focusing on the Japanese pursuit of great political power as the motive behind it.[44] Yuye Yan's work applies the neoclassical realism to explain Japanese aid to North Korea. The article concludes that Japanese politicians sensed the chance to improve the Japan-North Korea relation, and the bureaucrats used aid as a policy tool to contact the internationally isolated North Korea. [45] However, neither of them mentioned the connection between the ODA and business. In the fourth chapter, I reinterpret the ODA policy as a tool for state power to mobilise more material power in order to achieve foreign policy goals. This creation may provide ODA as a detailed example to explain how state power mobilise other social resources and enriches the empirical evidence to support the neo-classical realism.

Besides the review of existing literature, this research adopts historical and discourses analysis for the primary Japanese sources. The material includes Japanese Diet Minutes, mainstream newspapers, including Asahi Shimbun, Mainichi Shimbun, Yomiuri Shimbun, and Nikkei Shimbun. In the Diet Minutes, including both general assembly and individual committees, the focus is on the questions brought by the opposition party regarding CA policy or issues, and the defence made by the government.

[44] Yuan Zhou

[45] Yuye Yan, "Post-Cold War Japanese Aids to North Korea, an Explanation from Neo-Classical Realism", *Japanese Studies*, Vol 2, 2011: 54-66.

Chapter 2 – Perception of the "national power" change, from the politicians' perspective

For the Western world, there is no better Christmas gift than the collapse of the Soviet Union on 25 December 1991. As a member of the Western bloc, Japan was excited to embrace a new era ahead. Although the assets bubble burst occurred earlier that year, the Japanese at that time believed that the setback was merely a temporary adjustment for the further booming economy ahead.[46] The vicious consequences of the bubble burst did not reveal itself immediately, and Japan was still enjoying the prosperous as the world second-largest economy. Probably there is no better case study than the EBRD to demonstrate how the economic advantages fueled the Japanese political ambition and how the Japanese politicians perceived the external political changes. The Japanese involvement in the EBRD reveals that even before the final collapse of the Soviet Union, Japan has been picturing a new world order where the Japan as the East Asian economic powerhouse plays a vital role in it. More importantly, the striking contrast between the great expectation and bitter reality in the EBRD explains the transition in Japanese foreign policy in the 1990s, putting more emphasis on more on Asia instead of the entire Eurasia. The Japanese involvement in CA, triggered by the previous engagement in the EBRD, can be interpreted as the turning point of the foreign policy focus shift. Last but not least, Ryutaro Hashimoto was a key figure in the Japanese involvement with the EBRD and his experience in this part contributes to a better understanding of the Japanese foreign policy adjustment when he became the Prime Minister in 1996.

[46] Tamon Takahashi, Tsutomu Watanabe, Liquidity Trap and the Best Monetary Policy, *Economic Studies*, Hitotsubashi University, Vol. 57, No. 4, October 2006: 358.

2.1 Great Expectations

In March 1990, Ryutaro Hashimoto, the Japanese Minister of Finance, returned from his meeting in Los Angeles with Nicholas F. Brady, the United States Secretary of the Treasury. In his Diet report he emphasised that Japan and the U.S. had agreed to "fall in step with each other" in establishing the EBRD[47].

A month later, Toshiki Kaifu, the Prime Minister of Japan, used the EBRD as an example to present his grand vision for Japan in his Diet speech:

> *We must strengthen the Three Pole Structure of the US, EC, and Japan, taking responsibility for the world economy and security through the coordination of policies and cooperation of implementation. The recent proposal of EBRD is a good example…there shall be more cases like this. Japan will have a bigger role to play in the world economy.*[48]

Japanese ambition also echoed in the media. As the earliest written record about the EBRD in Japan, the Asahi Shimbun article released as early as December 1989 described the EBRD as "an opportunity to appeal Japanese political existence in Europe.[49]

Japan's significant foreign exchange reserves not only made it possible for Japan to provide monetary support to the EBRD, but also fueled a sense of Japanese honour that the country ought to take on more international responsibilities. In February 1991, Taro

[47] "Kyōdōhotyō", Ryutaro Hashimoto, Budget Committee 3rd Meeting, 26 March 1990.
[48] Kaifu Toshiki, Budget Committee 4th Meeting, 3 April 1990.
[49] "Seijiteki Yakuwari Niha Genkai Higashigawa Enjo Beio Ni Sa" ("Limited Political Role, U.S. and Europe Difference in Helping the East"), *Asahi Shimbun*, 17 December 1989.

Nakayama, Minister of Foreign Affairs, argued that Japan and Germany were the only two among all the advanced industrialised countries that enjoyed a foreign exchange surplus[50]. That said, post-reunification, Germany needed to make huge investment into Eastern Germany, leaving Japan, in Nakayama's view, as the only country capable of providing sufficient funds to the EBRD. He questioned his fellow MPs in the Diet on the issue of investment in the ERBD: "if not Japan, then who?"[51] Since Japan could not make a contribution to international military cooperation as a result of its postwar Peace Constitution, economic power was used by Japan to compensation in order to foster Western values[52] including multiparty democracy, pluralism and market economics[53]. Moreover, Japan had valuable experience in providing economic aid from the erstwhile Official Development Assistance programs, and the establishment of the Asian Development Bank. Japan was proud of its expertise and was willing to share it with European countries through "the Japanese funding with wisdom"[54].

Apart from the general idea of a greater international role and value-spreading, Japan also had a more specific aim of retaking the Northern Territories (South Kuril Islands) from the Soviet Union when it was planning to join the EBRD. [55] Ever since the idea of the EBRD was mooted in Japan, a major domestic concern was potential

[50] Taro Nakayama, Diplomacy and Comprehensive Security Committee 2nd Meeting, 18 February 1991.
[51] Ibid.
[52] Though being an Eastern Asian country, Japan has been a part of the Western bloc since the Cold War and still holds a position in the G7 nowadays.
[53] Timur Dadabaev, "Japan's ODA assistance scheme and Central Asian engagement: Determinants, trends, expectations", *Journal of Eurasian Studies*, 7 (2016): 26.
[54] Kanji Kawazaki, Foreign Affairs Committee 5th Meeting, 6 March 1991.
[55] The Northern Territories dispute, also known in Russia as Kuril Islands, is a disagreement between Japan and Russia. The Northern Territories is four islands that stretch between the Japanese island of Hokkaido at the southern end and the Russian Kamchatka Peninsula at the northern end. The disputed islands were annexed by the Soviet Union at the end of World War II. The disputed islands are under Russian administration as the South Kuril District of the Sakhalin Oblast while claimed by Japan.

economic aid to the Soviet Union. Some MPs and bureaucrats suggested in Diet discussions that any economic aid to the Soviet Union should come with certain conditions attached. Yukio Sato, Director of Information Research Department in Foreign Ministry, hinted that due to the unsolved Northern Territories issue between Japan and the Soviet Union, Japan ought to treat the Soviet Union differently from other Eastern European countries in terms of economic aid[56]. Nikkei Shimbun also pointed out that the Japanese government had insisted on the return of the Northern Territories as the necessary precondition to economic aid.[57] The Liberal Democratic Party (LDP) government faced pressure from both within and without to take a firmer stand in pursuing national interest in exchange for economic contributions, not to mention the fierce attack from the opposition party, Hirofumi Nakasone, son of former LDP Prime Minister Yasuhiro Nakasone urged that "as an important founder of the EBRD Japan should speak out loud its stand", as foreign aid money came from the taxpayer.[58] Later, the LDP government instigated an assertive policy concerning the territorial claim into its manifesto. In his annual Policy Speech to the 120th Session of the Diet, Prime Minister Toshiki Kaifu clearly stated:

> *The unprincipled separation of politics from economics only promoting economic relation and leaving the Northern Territories issue unsolved is not what Japanese people want.*[59]

[56] Yukio Sato, Diplomacy and Comprehensive Security Committee 2nd Meeting, 13 April 1990.
[57] "Atamagoshi? CIS Shiensaku Beidoku Nihon Torikomi" ("Head Over Diplomacy? U.S. and Germany corner Japan on the CIS Assisting "), *Nikkei Shimbun*, 4 April 1992.
[58] Hirofumi Nakasone, Budget Committee 10th Meeting, 21 May 1990.
[59] Toshiki Kaifu, Policy Speech to the 120th Session of the Diet, 120th Session of the Diet, Plenary Session, 1 March 1991.

2.2 Bitter Reality

Eventually in 1991, the Japanese government provided 144.8 billion yen[60] to establish the EBRD.[61] The Japanese contribution comprised almost 9% of the total funding following the largest contribution of 10% by the USA.[62] Before its collapse at the end of 1991, the Soviet Union was also an original EBRD contributor, but after the collapse it became a recipient.[63] Soon thereafter, the Japanese government realised that EC countries and the USA only wanted the benefit of Japanese funding, and neglected the agreement prerequisite about providing aid to the Soviet Union.

At first, the Western countries promised to support Japan's territorial claim, or so Japan believed. After 17th G7 Summit held in London in July 1991, Prime Minister Toshiki Kaifu reported to the Diet that the G7 reached a consensus acknowledging the significance of the Northern Territories issue, not only for the Japan-USSR relations, but also for other G7 members as well as the peace and stability of the world.[64] Foreign Minister Taro Nakayama further named U.S. President George H. W. Bush as one of the Western leaders claiming it was vital to solve the Northern Territories issue[65]. However, in hindsight, this simply appeared to be a ruse to secure further Japanese funding. Moreover, the Japanese believed at that time that it was impossible to mobilise the

[60] All currency mentioned in this dissertation refers to the price at that time if not otherwise stated.
[61] All the values of money mentioned in this article are in the value of respective year, unless otherwise stated.
[62] Ryutaro Hashimoto, Finance Committee 6th Meeting, 18 March 1991.
[63] Agreement Establishing the European Bank for Reconstruction and Development, EBRD website. Though the Soviet Union was listed as a recipient country with other Eastern European Communist countries, its capital contribution of 600 million Euro (£451,380,000 in 1990, £1,033,660,200 in 2020) was the 6th largest following the USA, Japan, France, Federal Republic of Germany, Italy and the United Kingdom.
[64] Toshiki Kaifu, Budget Committee 3rd Meeting, 22 August 1991.
[65] Taro Nakayama, Foreign Affairs Committee 14th Meeting, 2 August 1991.

international economy without paying attention to the Japan;[66] therefore, they miscalculated that this gave them a certain degree of leverage over their Western partners when it came to the Northern Territories.

To the Japanese government's surprise, Germany and the USA later decided to push the agenda of financial support to Russia forward without waiting for the settlement of the territorial dispute. In April 1992, Germany started to provide Russia with financial support, something which Tokyo found appalling. Nikkei Shimbun described the news as "a sudden spill of water to someone asleep".[67] The Japanese government was disturbed by the sudden nature of the decision, as well as the USA's support for Germany. The Ministry of Finance was furious that "the U.S. and Germany are trying to draw Japanese funding out through multilateral mechanism."[68]

Another source of frustration for Japan was the establishment of the Nuclear Safety Account (NFA). In early 1992, the EBRD was planning to establish a special account to provide safety assistance to countries operating Soviet-era nuclear power plants[69]. European countries such as France and Germany suggested providing all the necessary funds through this newly-established account. However, Japan was fully aware that even though the USA and European countries all purportedly agreed to provide funds during meetings, it was unlikely that their respective governments would be able to pass the relevant legislation in their national parliaments, largely due to the already significant

[66] Ibid.
[67] "Nemimi Ni Mizu", "Atamagoshi? CIS Shiensaku Beidoku Nihon Torikomi" ("Head Over Diplomacy? U.S. and Germany corner Japan on the CIS Assisting "), *Nikkei Shimbun*, 4 April 1992.
[68] Ibid.
[69] Nuclear Safety Account, EBRD website, https://www.ebrd.com/what-we-do/sectors/nuclear-safety/chernobyl-nuclear-safety-account.html (Accessed November 2019)

expenditure on the EBRD.[70] Before the NFA disagreement, Japan had already provided additional funds of 1.6 billion yen to another fund within the EBRD framework named the Japan-Europe Cooperation Fund.[71] Japan was therefore unwilling to make further huge international payments without gaining something tangible in return.[72] Japan was right to be wary: it did indeed eventually plug the funding blackhole, but Japanese companies were subsequently overlooked in favour of European ones when it came to the awarding of commercial contracts to repair those power plants or to provide alternatives to nuclear energy in the name of the EBRD.'[73]

The start of the Japanese involvement in CA was triggered in an unexpected way. As a way to convey its dissatisfaction, Japan started to challenge the EBRD with its own Asian counterpart in relation to which Japan had a firmer grip, the Asian Development Bank (ADB). The Commonwealth of Independent States (CIS), including five Central Asian countries, joined the EBRD on 27 February 1992.[74] After a period of frustration with the EBRD, Japan endeavoured to divert those Central Asian countries away from the EBRD to the ADB. On 1 May 1992 Michio Watanabe, the Deputy Prime Minister and Minister of Foreign Affairs (Taro Nakayama's successor), met with President Akayev in the capital of Kyrgyzstan, Bishkek. During the meeting, Michio Watanabe expressed

[70] "Gempatsu Taisaku Kikin Nichibei Seifu Ha Nanshoku Kyoshutsu Hōhō De Ōsyū To Tairitsu" ("Japan and U.S. Dislike NFA, Split with Europe over Payment"), *Asahi Shimbun*, 25 June 1992.
[71] Japan‐Europe Cooperation Fund (JECF) supports transition operations from planned economy to market economy in all 27 of the EBRD's countries.
[72] "Nihon CIS Enzyo De Hihon Ōsyū Kyōryokusikin Ni 16 Oku Tuika He" ("Japan Pays Additional 1.6 Billion Yen for the Japan‐Europe Cooperation Fund"), Asahi Shimbun, 15 April 1992.

[73] Ibid.
[74] "CIS 11 Koku No Kameisyōnin Ōsyūhukkōkaihatuginkō" ("EBRD Comfirms 11 CIS Countries Join the Bank"), Asahi Shimbun, 27 February 1992

Japanese support for all five Central Asian countries to join the ADB.[75] The initial Japanese plan was to secure exclusive access from the ADB to those Central Asian countries and their economies, with them also leaving the EBRD. On 7 May 1992, Tsutomu Hata, the Minister of Finance (Ryutaro Hashimoto's successor), clearly stated that any CIS country that wanted to join the ADB must choose between the ADB and the EBRD. He made a further appeal to the prospective countries: "the demands for funding are increasing, we all agree that it is necessary to increase the capital of the ADB."[76] However, after several rounds of negotiations, the final agreement at the end of 1992 was to have the five Central Asian countries acceding to the ABD whilst simultaneously remaining members of the EBRD.[77]

Before the ADB officially ratified the membership of those five Central Asian countries in August 1993, the scandal of waste within the EBRD publicly ignited long-accumulated frustration in Japan. On 14 April 1993, the Financial Times reported that since the establishment of the EBRD in April 1991, total investment was £101,000,000, with its outgoings amounting to some £215,000,000. That latter figure that included £55,500,000 for the interior and exterior decoration of a new headquarters, £600,000 chartering jets for the EBRD's president, Jacques Attali, and £52,000 for the 1992 Christmas party.[78]. In fact, the EBRD had already once before moved into new headquarters in 1991, costing the British government £18,000,000, and which was only in

[75] "Tyūōazia Gokakoku No ADB Kamei Gaisyō Sekkyoku Sizi Wo Hyōmei" ("Minister of Foreign Affairs Shows Support for All Five Central Asian Countries to Join the ADB"), *Nikkei Shimbun*, 2 May 1992
[76] "CIS Syokoku No ADB Nizyūkamei Ha Kaihi Wo" ("Avoid Double Membership of CIS Countries"), *Mainichi Shimbun*, 7 May 1992.
[77] "Aziakei CIS Nizyūkamei Ōsyū Aziakaigin Dōi" ("ADB and EBRD Agree on Double Membership of CIS Countries"), *Nikkei Shimbun*, 1 November 1992.
[78] "EBRD No Huyōhiyō Wo Hihan" ("Criticise on EBRD's Waste of Money"), *Asahi Shimbun*, 14 April 1993

use for two years. Asashi Shinbun harshly questioned the unspoken rule of the EBRD "Headquartered in London and presidented from France." The article argued that France shamelessly held on to the EBRD presidency even after the scandal of waste under the leadership of French president Jacques Attali.[79] As far as the resignation of Attali and the election of his successor was concerned, Mainichi Shimbun mocked Japan as a "straight-A student who follows the rules strictly", and suggested Japan "find a candidate to run for the election to have a better understanding of the hateful European manipulation within the EBRD."[80] Japan's position in the EBRD could perhaps be encapsulated in the following figure: the percentage of Japanese personnel in the EBRD, around 3%, was far below the proportion of capital it had injected, about 9%.[81]

2.3 Inaccurate perception of relative power change

The Japanese involvement in the EBRD demonstrated the difference between how Japanese politicians perceived the post-Cold War era and how it actually was. As neo-classical realism argues, the fundamental variable of foreign policy evolution is the change of the relative power among countries. The Japanese politicians sensed that the collapse of the Soviet Union would provide a power vacuum that could be fulfilled by Japan as a pole of the new triangular world order. The rising Japanese economic power gave them solid ground to aim higher. However, history suggests that the relative rise of

[79] "Sōsaierabi Ōsyūkaigin Mo Konton" ("Election of Next President, Chaos in the EBRD"), *Asahi Shimbun*, 25 July 1993.
[80] "EBRD Zikisōsai Nihon Mo Torai Wo" ("Japanese Should Try to Run for Next President of the EBRD"), *Mainichi Shimbun*, 1 August 1993.
[81] "Seigin Nihonzin Syokuin No Hiritu Teimei" ("Low Percentage of Japanese Employee in the World Bank"), *Japan Financial News*, 10 January 1994.

Japanese power was not as significant as the elites believed. The tripartite post-Cold War world order, as originally envisaged by Tokyo, namely the USA, the EC and Japan all working as equals, ended up as a one-sided channeling of Japanese wealth to Europe with limited political coordination in exchange. The EBRD not only received a huge amount of funding from the Japanese government, but also constantly enjoyed the low cost of fundraising in the Tokyo financial markets. Among all the funds raised by the EBRD on open market, the percentage from Tokyo was 80% in 1995, 65% in 1996 and 70% in 1997.[82]

The frustration felt by Japan through its involvement in the EBRD was concrete evidence that Japanese political influence was not enough to stretch to Europe across the entire Eurasian continent, not to mention as a global powerhouse. Back in 1991, Hashimoto stated his reflection in the Diet that Europe is a place beyond the Japanese reach due to the geographical distance and the lack of historical interaction.[83] As a result of adjusting their previously ambitious expectations, the focus of Japanese foreign policy retreated from Europe and limited itself to Asia. This strategic contraction echoed with Hashimoto's speech in the Diet that Japan lacked geographical and historical connections to Europe, and therefore should conceptualise Asia as its region of primary interest.[84]

Murashkin argued that the EBRD "historically developed an informal geographical division of trusteeship labor" whereby Japan was assigned to take care of

[82] "En'yasu Kage Ni Ōsyū No Hukkō EBRD Teikinri No Nihon De Sikintyōtatu" ("Depreciating Yen Supports European Reconstruction, EBRD Raising Funds from Japan with Low Cost, *Mainichi Shimbun*, 18 March 1997.
[83] Hashimoto Ryutaro, Finance Committee 2nd Meeting, 18 Feburary 1991.
[84] "Yahari Wareware Ha Azia Toiu Mono Ni Zibuntati No Kiban Wo Okanakerebanaranai", Hashimoto Ryutaro, Finance Committee 12th Meeting, 15 March 1991.

CA.[85] The formation of this division may not be as harmonious as described by Murashkin: Japan's struggle to challenge the EBRD in Central Asia using the ADB is perhaps evidence of a disconnect. Some scholars believe that Japanese engagement in Central Asia started with Hashimoto's "Eurasian diplomacy" or "Silk Road diplomacy" in 1997 but more likely it started earlier as an unexpected result of Japan's experience in the EBRD.[86] The beginning of Japanese involvement in CA can be interpreted as a compromise, to retreat from Europe and simultaneously enhance the Japanese leadership in Asia. In this context, CA countries were not only regarded as newcomers in the community of Asian countries, but also as the western frontier of Asia against Western influence expanding from the west side of Eurasia to the east. This strategic importance of CA as perceived by the politicians partly explains the high-profile Japanese governmental involvement in the region. However, the politicians are the decision-makers, but not the policy-makers themselves. Politicians point out the marching direction and set a goal for the policies, but the detailed composing and implementation of the respective policies were carried out by the bureaucrats, the protagonists in the next chapter.

[85] Nikolay Murashkin, "Japanese Involvement in Central Asia: An Early Inter-Asian Post-Neoliberal Case? *", *Asian Journal of Social Science*, 43 (2015): 71.
[86] Chien-Peng Chung, "Japan's Involvement in Asia-Centered Regional Forums in the Context of Relations with China and the United States", *Asian Survey*, Vol. 51, No. 3 (May/June 2011): 409.

Chapter 3 – Internal "state power" changes, through the bureaucrats' view

3.1 Disturbed connection between decision-makers and policy-makers

The previous chapter focused on the relative change of power in the international arena from the politicians' perspective, while this chapter puts more emphasis on domestic political changes that affected the Japanese policy towards CA. Although the changes are related to politicians as well, it shall be better presented from the perspective of the bureaucrat, as they are the specific policy-makers. Through policy tools, bureaucrats harness the state power to allocate all kind of resources, including funds, human resources, equipment, etc., to achieve the goals set up by the politicians. However, the bureaucrats are not always fully loyal to their political masters. The bureaucrats enjoy a certain amount of autonomy to serve either as an amplifier or as a regulator of the politicians' will.

Like the British political system, the Japanese bureaucracy also serves the ruling party of the nation. Yet the uniqueness was that the ruling party in Japan had remained unchanged for 38 years by 1993. Ever since its establishment in 1955, the LDP kept the status of the ruling party as well as the throne of Prime Minister. Therefore, other than interactions with the opposition party members in specific Diet committees, the bureaucrats had been working exclusively with the LDP in the policy-making process. In other words, when the first non-LDP administration came into office in 1993, the newly elected ruling party coalition did not know about the policy-making as much as the LDP did, especially in regards to foreign policy. The unfamiliarity compared to the long-

existing LDP partners caused problems to the bureaucrats in many policy-making processes, and the CA policy was no exception.

Kojima Keizo, an MP from Japan New Party[87] newly elected in 1993, had been tenaciously advocating his plan for importing natural gas from CA. In his blueprint, Japan should connect the natural gas supply from CA to a pipeline all across Japan, which was only a broad scheme at that time and never implemented.[88] He argued in both the Energy Committee and the Commerce and Industry Committee in the Diet session that it was necessary to lower dependence on oil and rely on natural gas as the replacement. He further argued that considering the length of the pipeline from Russia to Western Europe, it was not a daydream to build a pipeline from CA to Japan. [89] In the end, Kawata Youki, Director of Agency for Natural Resource and Energy in the MITI, had to give Kojima a lecture about the Japanese energy policy. Kawata explained that Japan had been importing natural gas from Indonesia and Malaysia which are close to Japan. Although there are abundant resources in CA, the mining and transportation cost made it unrealistic for Japan to import. Kawata also explained that the Japanese imports of natural gas rely on specialised ship transportation instead of pipeline. He further explained that natural gas requires complicated supply chains, and each project requires a tremendous amount of funds to finish. Kawata's ending sentence was like veiled sneers at

[87] Japan New Party was a member of the first non-LDP ruling party coalition and the fisrt non-LDP Prime Minister Hosokawa Morihiko was the party leader.
[88] Ken Hirata, Kengo Asakura, Vision of Natural Gas Pipeline across Japan, JSCE Magazine, May 1993: 16-19.
[89] Keizo Kojima, Commerce and Industry Committee, 3rd Meeting, 27 October 1994.

Kojima's naïve thought as he concluded that "the adjustment of natural gas supply should be promoted in a more practical sense."[90]

The instability of the newly created ruling party coalition also caused problems to the bureaucrats in diplomacy. The first-ever non-LDP Prime Minister Hosokawa Morihiko was unable to maintain cohesion within the coalition, and was himself involved in a debt scandal. As a result, the administration lasted less than a year as he resigned eight months from his first day in the office. Unfortunately, when he resigned on 8 April 1994, it was the day directly after his productive meeting with the President Nazarbayev of Kazakhstan who was on a state visit to Japan.[91] From the perspective of an authoritarian regime, as Kazakhstan was, the change of a head of the state is usually followed by a change in foreign policy. The Japanese bureaucrats, including diplomats, had to put enormous effort to assure the Kazakhstan side that all of the agreements reached by the two leaders would not be affected because of the unexpected personnel change.[92]

Although the Hosokawa administration did not last long, a law package that would influence the policy-making process significantly was passed within the eight months that he served. In 1994, the Japanese voting system changed from the previous single non-transferable vote system of multi-member districts (MMD) to a mixed electoral system of single-member districts (SMD).[93] In the past, several MPs were elected from a single district; therefore, a party may have more than one candidate in the

[90] Youki Kawata, Commerce and Industry Committee, 3rd Meeting, 27 October 1994.
[91] Tomohiko Uyama, 39.
[92] Ibid.
[93] Ian Neary, The State and Politics in Japan. Second ed. Cambridge, UK ; Medford, MA, 2019. 81.

district. To differentiate with other candidates from the same party, candidates are usually specialised in a specific policy field. As a result, within a single party, there were several "zoku (tribes)" concentrating MPs from different districts with the same policy focus.[94] Then the zoku forms a stable relationship with the respective ministries and the bureaucrats working there. However, in the new system of single-member districts, only one MP get elected from a single district. Therefore, the candidates have to equip themselves with knowledge of all policy fields in order to represent the interests of the voters better. As a result, the necessity of zoku was significantly reduced. In the long term, the voting system reform might have been a beneficial move for anti-corruption; in the short term, the drastic change caused turbulence to the long-existing policy-making collaboration between the politicians and the bureaucrats.

3.2 Shrinking bureaucratic power

Another domestic political trend in the 1990s that coincided with the shaping of Japanese CA policy was the concentration of power to the Prime Minister. Taking the ODA policy as an example, politicians made a new attempt to reform the ODA decision-making after the mid-1990s.

First, the ODA budget, previously regarded as a sacred and untouchable right of the bureaucrats, was reduced by the Prime Minister Hashimoto Ryutaro in June 1997. The reduction by 10% was the first time the ODA had experienced a budget cut since

[94] Ian Neary, 75.

1954.[95] Simultaneously, Hashimoto also started structural reforms to take more power from the bureaucrats through the Council on ODA Reforms for the 21st Century. The Council was not a part of the bureaucracy system but was directly led by the Foreign Minister, and ultimately the Prime Minister. The Council suggested that MOFA should serve as the "core of a concerted, comprehensive drive to come up with far-reaching strategies and other broad-based programs […]".[96] The reform enhanced the hierarchical structure in which the autonomy of the MOFA was further limited. The bureaucrats were asked to loyally translate the guidelines of the prime minister into broad policies that should be followed by other ministries.

Besides the gradual taking over by the politicians of control over policy tools, the bureaucrats were also put into an awkward position by the politicians. Japanese politicians, as the decision-makers, have regarded the CA as the western frontier of Asia and envisaged Japan conducting independent policy towards CA as the leading country in Asia. However, at a practical level, the bureaucrats, did not enjoy much freedom to carry out their political masters' vision. In 1992, Japan was given the floor to speak in the Commission on Security and Cooperation in Europe (CSCE), and it was the first time ever in the CSCE history to invite a non- North Atlantic Treaty Organization (NATO) country for speech. In the conference, NATO countries expressed their expectation that Japan, the world second-largest economy, would help to shoulder the burden of "communist legacy". [97] The NATO countries wanted Japan's assistance in dealing with

[95] Keiko Hirata, "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making." *Pacific Affairs* 71, no. 3 (1998): 312.
[96] "Final Report of the Administrative Reform Council", Prime Minister's Office, 1997. http://japan.kantei.go.jp/971228finalreport.html (Accessed 1 August 2020)
[97] Siyu Wang, "The Transmutation of Japan's Central Asia Strategy", Xinjiang Normal University, March 2016. 18

the Newly Independent States (NIS) from the collapsed Soviet Union, especially the large number of nuclear weapons owned by the Soviet Union but widely allocated in the NIS. Therefore, the Japanese policy towards CA had to be in line with the United States and European countries. As a result, in the Ministry of Foreign Affairs (MOFA) the newly established unit in charge of Central Asia was combined with the unit in charge of Caucasus, and the combined office assigned to the European Bureau instead of the Asian Bureau. The politicians envisaged an independent Japanese policy towards CA, but the bureaucrats had to cooperate with the other Western countries in the diplomatic practice. The incoherence between the politicians and bureaucrats further undermined the state power to form a united CA policy.

Last but not least, the MOFA budget was quite limited in the early 1990s compared to the past due to the burst of the asset bubble and the following recession of the Japanese economy.[98] The establishment of Japanese embassies in CA countries was far later than other countries such as the United States and China. For several years, Japan only had embassies and ambassadors in Kazakhstan and Uzbekistan. Sometimes the Japanese diplomacy in CA had to be carried out by individuals instead of institutions.[99] The falling of Japan's national power was clearly demonstrated by the weakening of its state power in terms of its decreasing ability to mobilise necessary resources.

[98] Siyu Wang, 53.
[99] Tomohiko Uyama, 4.

3.3 Undermined State Power

Throughout the 1990s, the Japanese bureaucracy suffered several waves of shock from domestic political changes. The change of the ruling party and the vote system reform significantly altered the policy-making process, and the bureaucracy required time to adapt. This series of adjustments coincided with the shaping of the first Japanese policy towards CA, and certainly caused chaos and delays. From within, the bureaucracy gradually lost its firm grip on the ODA to the Prime Minister's Office; from without, the bureaucracy had to balance the practical need to collaborate with the West and the politicians' ambition for an independent CA policy. Even worse, the budgets for the MOF were limited due to poor national economic performance. All these factors combined may explain why the governmental effort seemed uncoordinated and why the first united policy towards CA was not presented until 1997. The gap might have been inevitable when the state power was undermined, as the private sector was unable to find a clear official guide neither formally nor informally.

Chapter 4 – Business's Hesitation

4.1 Lack of interest

The limited market size of CA was the first and most obvious explanation for the lack of interest of Japanese businesses in the region. Even Kazakhstan, the largest economy in CA was a small market of seventeen million inhabitants and was an exception to the rule in the wider regional context.[100] The situation did not improve significantly until the late 2000s when Kazakhstan began to stand out even further in terms of purchasing power and a comparatively friendlier business environment, which resulted in growing interest from Japanese companies. The situation in Kyrgyzstan and Tajikistan were even more undesirable, with smaller population size of five-million and eight-million respectively.[101]

Moreover, the inconvenient location of the CA countries raised the transportation cost and made it even more unattractive for Japanese businesses to engage in the region. Whatever the commodity, it required new infrastructure to be delivered from CA to Japan and East Asia. The existing roads, railways and pipelines from these landlocked republics led to the "Third Rome", Russia, their former imperial metropolis.[102]

The chaotic local situation in CA further amplified Japanese businesses' hesitation. Tajikistan had been trapped in civil war since its independence, making it out of the investment destination list. Turkmenistan remained highly closed to the outside

[100] Nikolay Murashkin, 2016, 295.
[101] Ibid.
[102] Nikolay Murashkin, 2016, 301.

world, earning a reputation as "The North Korea in Central Asia".[103] In 1994, Uzbekistan introduced its new currency, but two years later in 1996, the Russian financial crisis significantly affected Uzbekistan's international balance of payment. Unwillingly, the Uzbekistan government had to force a strict regulation on foreign exchange and limit imports. In the end, these remedial measures led to further chaos in the foreign exchange market. Foreign investment to Uzbekistan dropped sharply because of the currency and exchange turbulence. [104]

4.2 Severe competition

Starting with its early engagement in the European Bank for Reconstruction and Development (EBRD), the Japanese involvement in CA was not an easy or happy one. As the only Asian country among the major donors of the EBRD, Japan was bound to face competition from Western counterparts from the first place. Although Japan provided most funds for the Nuclear Safety Account, an individual account under the EBRD framework to provide safety assistance to countries operating Soviet-designed nuclear power plants, Japanese companies were not the main contractor to repair the nuclear power plants or provide a replacement for nuclear energy. The European companies formed a formidable alliance called the European Fuel Cycle Consortium (EFCC) to compete for the biddings. The members were the leading European companies from 5 countries, and some were even state-owned enterprises, including the British Nuclear Fuels Limited (BNFL) from the UK, Gesellschaft für Nuklear-Service mbH

[103] Siyu Wang, 29.
[104] Ibid.

(GNS) from Germany, COGEMA (now Orano Cycle) from France, Belgonucleaire from Belgium, and ENUSA from Spain. As a result, the Japanese companies were boxed out of the nuclear power plant business and turned to focus on the oil sector.

Even though Japanese companies were in charge of several programs in the oil sector, the most profitable part was taken by the Americans. What the Japan business union, consisting of Mitsubishi Corporation, MITSUI & CO., LTD, and Toyo Engineering Corporation (TEC), acquired in Kazakhstan was a refinery construction contract, valued at under 1.5 billion dollars.[105] However, the funding was provided by the Japan Bank for International Cooperation instead of the Kazakhstan government. Meanwhile, what the American company Chevron Corporation got in Kazakhstan was a 40-year contract at Tengiz Oilfield, from which 2.5 million tons of crude oil, approximately 0.5 billion dollars' worth, was produced in a single year in 1994.[106] A manager of the Japanese business union complained to the Nikkei Sangyo Shimbun that "There is a difference between a refinery construction contract and an oil drilling contract." [107]

Although the Japanese government encouraged the private companies to trade with and invest in CA, the undermined state power was incapable of providing sufficient support. As Japanese oil company officers, the Japanese government's promotion of its

[105] "Enerugī Taikoku Mezasu Kazahusutan Seiyuzyo Kensetu Ni Kitai Kigyōrengō Sikintyōtatu Kagi" ("Kazakhstan Aiming to be the Energy Giant (second part), Anticipation in Refinery Construction: The Key Funding from Business Union") , *Nikkei Sangyo Shimbun*, May 1st, 1994.
[106] "Tengisuyudenkaihatu Beisyeburon Ga Enki Rosia Kazahu Yōkyū Ni Hanpatu" ("Chevron Corporation Postpone Further Investment to Tengiz Oilfield, Unsatisfied with the Russian and Kazakhstan Requirements"), *Nikkei Shimbun*, Febuary 17th, 1995.
[107] "Enerugī Taikoku Mezasu Kazahusutan Seiyuzyo Kensetu Ni Kitai Kigyōrengō Sikintyōtatu Kagi" ("Kazakhstan Aiming to be the Energy Giant (second part), Anticipation in Refinery Construction: The Key Funding from Business Union") , *Nikkei Sangyo Shimbun*, May 1st, 1994.

corporations interests was weak and lacking strategic vision, when compared with the state lobbying of the United State or other Western powers.[108]

4.3 Over independence on ODA

With all the disadvantages mentioned above, the Japanese ODA, as a key embodiment of state power, was supposed to be a tool to improve the investment environment and attract more Japanese investment in the region. However, in reality, ODA turned out to be a deterrent to further Japanese private sector engagement in the region. Many of the ODA projects did not suit the local situation. For instance, Japan provided some computers to CA countries through the ODA program, but the high cost of internet access made these donated computers white elephants in the school. Some computers were left to gather dust, and some were used only to let their students practice typing. Another case involved donated agricultural machinery earning lousy reputation for Japanese products. Although Japan donated some agricultural machinery to CA farmers, the maintenance cost was beyond their reach. Furthermore, there were no technical personnel or parts and components needed for the repair work. In the end, the local farmers' dissatisfaction with Japanese products grew to the point that they preferred the old fashioned Soviet agricultural machinery over the Japanese ones, which they considered to be too fragile.[109]

[108] Nikolay Murashkin, 2016, 296.
[109] Yuan Zhou, 91

Within the limited amount of investment, the misaligned ODA emphasis made the future of Japanese investment in CA ever darker. Fueled by previous successful cases elsewhere and a deeply rooted pride in its heavy industry, Japanese ODA was pushing hard for manufacturing. This obsession with manufacture relocation was yet another cause of Japanese business's poor performance in CA. CA countries welcomed the Japanese manufacturing industry, hoping to get rid of their dependence on the energy market and diversify their industries. The following incident took place far later than the main period of this research, and it demonstrates that this choice of industry was so deeply flawed from the beginning that the, impact of this decision is out there in the second decade of the 21st century. During PM Abe Shinzo's visit to Kazakhstan in 2015, the former president Nazarbayev specifically named the local Toyota factory as an example of a Japanese company investing in Kazakhstan. However, the Toyota factory in Kazakhstan was merely a CKD (Complete Knock Down) factory expected to produce 3,000 units annually, in practice only about 1000 units per year. The factory became operational in 2014 and was soon forgotten by Toyota. The production scale was too small, yet Toyota could not pull out entirely due to the symbolic burden of the factory. In general, the circumstance in CA was not ideal for Japanese manufacture relocation. Compared to the other developing countries in Asia, both the labour cost and the transportation cost from Japan to CA were prohibitively expensive for labour-intensive manufacture. Moreover, the local market scale was somewhat limited. Take Toyota as an example: the sales in the Kazakhstan market in 2017 was only 8800 units. As one of the top Japanese companies, if not the best, Toyota has its reputation for successful overseas

investment. The failure of Toyota could easily discourage other Japanese businesses from investing in CA.

Although the ODA funds were given to the local government, the majority was used to purchase commodity and service from the Japanese companies. In a successful ODA model, the Japanese companies would take advantage of the closeness to the local government and the familiarity to Japanese brand created in the local market through ODA purchase, and further enlarge trade with or investment in the country. However, for the Japanese companies targeting CA, the ODA turned out to be easy money and hindered the willingness to make further investments in the region with a high risk. It seems the ODA "water", which was supposed to make more capital spring from the "pump", was all needed to resolve the "drought".

When referring to big businesses as the target to be mobilised as social resources to support the government policy, the funding of the ODA itself is often underrated. After all, the ODA funding comes from the taxpayers, and is also a kind of social resource. The ODA funding was supposed to be a springboard for the following private sector's investment and achieving an effect of "1+1>2". However, the facts suggest that the big businesses consumed a large amount of ODA funding towards CA through government purchase, ending up with "1-1=0". Later in a report on Japanese CA aids composed by Japan International Cooperation Agency (JICA), the Japanese agency reflected that the Japanese aids should have chosen the target industry with grater prudence and focused more on the forming a united market in the region, so that the Japanese companies could

have had a better investment environment.[110] Unfortunately, as discussed in more detail in the following conclusion, Japan had already lost its best chance to transfer its economic advantage to political and economic influence in CA.

[110] Report of Aids Studies on Central Asia, JICA, March 2003 https://openjicareport.jica.go.jp/pdf/11649621.pdf (Accessed 4 July 2020)

Conclusion – Japan had its chance, so do China now

New Silk Road diplomacy presented by Hashimoto in 1997 was a political compromise to both external and internal pressure to lower the expectation of the Japanese role in the international arena. As described in the second chapter, by focusing on China, Russia[111] and CA, Japan discarded its ambitions of reaching across the entire Eurasian continent to Europe, but tried instead to enhance its influence in Asia. The presentation of the first-ever united national strategy towards CA declared the return of the LDP (1996) to its dominant position in the policy-making process and restored the close collaboration with the bureaucracy. As the third chapter concludes, only a stable and coherent political system lays a solid foundation to bring state power into full play. Hashimoto's decision to choose the Japan Association of Corporate Executive[112] as the venue for the presentation suggested that the New Silk Road Diplomacy was also an attempt to mobilise businesses to amplify Japanese influence in Central Asia. As the fourth chapter argued, by using neo-classical realism to analyse ODA policy, we can see that it was supposed to be a powerful tool to call upon assistance from the big businesses.

At the end of the speech, Hashimoto concluded very humbly:

"*It is needless to say that the private level communication is vital. I am aware that the members of the Japan Association of Corporate Executive have a keen interest in Central Asia, and have already sent a mission to the region recently. I sincerely*

[111] Mainly on the territorial disputes.

[112] DOYUKAI (Japan Association of Corporate Executives) membership comprises approximately 1,400 top executives of some 1,000 corporations, all sharing the common belief that corporate managers should be key players in formulating solutions of a broad range of political, economic, and social issues.
Japan Association of Corporate Executives, Overview,
https://www.doyukai.or.jp/en/about/ (Accessed 20 July 2020)

hope that this will be a meaningful attempt. If there is anything the government can help, please feel free to let me know." [113]

By the time Japanese decision-makers achieved a more accurate perception of national power, as well as a stronger state power after restoring the LDP and bureaucrats collaboration, and an united policy to increase the capability to mobilise more social resources like the big businesses, it was already 6 years after the independence of the CA countries. Back in 1997, the Japanese direct foreign investment had still not recover to the crash in the early 1990s, let along reached the previous peak in the 1989 and was about to face another round of downturn in the early 2000s.[114] Japan had lost its best timing to secure a more significant and sustainable influence in CA and to connect the entire Silk Road economy.

It is worth mentioning a few potential areas of study that, due to space constraints, have been inevitably neglected in this research, but that would offer starting points for further study.

First, although CA served as an ideal theatre to examine the Japanese foreign policy making process and the connection between the government and businesses, this choice of focus inevitably imposed geographical limits to the scope of analysis. As CA only represents one piece of the Japanese foreign policy, a comparative perspective with respective policies towards other countries would enrich the findings of this dissertation.

[113] Address by Prime Minister Hashimoto Ryutaro to the Japan Association of Corporate Executives, 24 July 1997.

[114] Japanese foreign direct investment data, Bank of Japan. https://www.boj.or.jp/statistics/br/index.htm/ (Accessed 10 October 2019)

Second, the framework of neo-classical realism may be biased in examining the relationship between politicians and big businesses. In the vertical sequence, the politicians who make decisions first, and then mobilise the big businesses to participate through the policy tools of state power. However, in some cases the Japanese politicians themselves can be taken as the representatives of the big businesses. Therefore, the vertical sequence might be a circle where the real decision-maker of Japan remains in an elusive fog.

Third, this study can be the base for a comparative study between the Japanese and Chinese involvement in CA. When Japan was trying to absorb CA countries into the ADB, one of the arguments presented by Nikkei Shimbun was ADB's successful experience of assisting China in its transformation from a planned economy into a market economy. Intriguingly enough, now it seems that the disciple is more competent of achieving what the tutor tried three decades ago. Although Japan's infrastructural footprint significantly pre-dates the Belt and Road Initiative (BRI) presented by China,[115] from 2010 to 2019, in the past decade, total Japanese investment in CA was next-to-nothing compared to the Chinese ones where the Japanese investment was 0.1 billion current USD while the Chinese investment reached 11.8 billion current USD.[116]

After years of unsatisfying performance, Japanese business in CA may finally see the light, namely the economic dynamism and the following opportunities created by

[115] Nikolay Murashkin, "Not-so-new Silk Roads: Japan's Foreign Policies on Asian Connectivity Infrastructure under the Radar." Australian Journal of International Affairs 72, no. 5 (2018): 455.
[116] Japanese foreign direct investment data, Bank of Japan. https://www.boj.or.jp/statistics/br/index.htm/ (Accessed 10 October 2019)
Chinese foreign direct investment data, China Global Investment Tracker, American Enterprise Institute. https://www.aei.org/china-global-investment-tracker/ (Accessed 10 October 2019)

rising Chinese presence. The infinite potential lies in infrastructure and logistics system through CA, the export of natural resources in CA to China, and the local tourism due to increasing Chinese tourists visiting CA. Though the rising dragon in the East may seem intimidating as it appears, or portrayed, a dance with the dragon is what the Japanese business needs to catch up with the grand expectation Japan had since the end of Cold War 30 years ago.

The Japanese precedents in CA can provide precious lesson for China. With a clear goal, the Belt and Road Initiative is aiming to improve the stability and connectivity of CA and eventually connect entire Eurasia. With a strong state power, the Chinese government are more capable of mobilising social resources. The massive Chinese aids come from growing domestic tax revenue, and the Chinese state-owned giant enterprises will follow the lead to invest in the targeted area and industries no matter the cost.

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