

MIT Japan Program Simulation Exercise

15-16 May 1993

Summary

Goals: To examine possible future global roles for Japan and to identify paths along which these roles might evolve; to model Japanese responses to a variety of international events and crises and to assess the short- and long-term implications of these responses.

Structure: The exercise consisted of three moves: 1993-1996, 1997-2000, 2001-2004. Teams included multi-member Japan and US teams comprising the major policymaking constituents of these two countries, and two-person teams representing China, South Korea, Russia and the European Community. Student "aides-de-camp" assisted each team. A Control Team guided players through the exercise, adjudicated each move, introduced occasional "crises" and external events for player response, and assumed the roles of all countries and regions not represented by a team. Players received a baseline global scenario (attached as appendix) that provided a common starting point for all teams.

Dynamic: Teams completed four-year plans for each move outlining major national goals, a domestic agenda, general and bilateral foreign policies, and defense policy. Teams were allowed limited negotiations with other teams. Certain policy making constituents of the US and Japan teams received a limited veto power. Moves I and II were followed by Control team adjudications which established new baselines for the next move. Move III was followed by a discussion of lessons learned.

Move I Highlights (1993-1996): Throughout Move I, the US team pursued a vigorous hard-line trade policy towards Japan, emphasizing "testable" numerical trade targets. Little attention was given to other foreign policy and domestic concerns. This strategy effectively marginalized the roles of the secretaries of state and defense. The US team, led by a Democratic president and Congress, demanded that Japan eliminate its bilateral trade surplus by 1996 or face revocation of its Most-Favored Nation (MFN) status. The US team further demanded that Japan institute an "affirmative action" program to increase foreign direct investment in Japan, and facilitate increased US access to Japanese technology. In addition, the US team proposed a new "Bretton Woods" trading system that would focus on equal access in all countries, a higher degree of intersectoral trade, and greater foreign investment. In an effort to forestall US sanctions, Japan announced a major import promotion plan and vowed to increase procurement of US military equipment.

Japan's ruling Liberal Democratic Party (LDP) remained united throughout Move I despite public and opposition demands for political reform. Japanese efforts to garner support for a permanent Japanese seat on the UN Security Council met with support from the US team but strong concern from China and the EC. Japan made little effort to resolve its dispute with Russia over the Kurile Islands. The United States reduced its troop presence in Europe to 10,000 in compliance with an EC request. China and South Korea announced increased security and economic cooperation.

Move I Adjudication Highlights ('The World in 1997'): US domestic economic plans in Move I failed to meet deficit reduction and job creation goals. Japan emerged from recession by exporting massively. The bilateral US trade deficit with Japan reached \$70 billion. Japan's global trade surplus approached \$200 billion. Japan's import promotion plans did not meet stated goals. Japanese proposals for increased procurement of US military equipment failed in the face of public opposition, domestic industrial interests and Ministry of Finance concerns over the budget. The US team was poised to seek revocation of Japan's MFN status under Article 23 of GATT. Japanese investment in the EC increased substantially, but market share showed little change.

The Democratic US president was reelected after a hotly contested campaign in which a protectionist/isolationist candidate garnered 28% of the popular vote. The election was decided in the House of Representatives after the president failed to gain a majority in the Electoral College. In Japan, a united LDP remained in power, but lacked a majority in the upper house of the Diet.

Japan's dispute with Russia over the Kurile Islands remained unresolved. The US blocked Japanese participation in an international program to develop Anti-Ballistic Missile (ABM) technology. Revelations of Japanese/Israeli collaboration on ABM development was discovered by Saudi Arabia, which threatened an oil embargo against Japan.

North Korean leader Kim Il Sung died in 1994. Kim Jong Il's hold on power was made tenuous by mistrust among military leaders and economic difficulties resulting from poor harvests, UN sanctions, and a Chinese embargo on oil supplies. North Korea announced that it had "joined the nuclear club."

The United States approved MFN status for China. China's economy continued to grow at more than 10% annually. Significant oil reserves were discovered in the Spratly Islands. China reinforced its deployment of submarines to the area with naval infantry. China assumed sovereignty of Hong Kong. The EC accepted Russia as an associate member.

Move II Highlights (1997-2000): The US administration continued its hard-line trade policy towards Japan throughout Move II. Japan proposed to cancel development of the FS-X advanced fighter plane in favor of off-the-shelf purchase of F/A-18's, to increase significantly its procurement of other US military equipment, and to provide financial support for the international ABM initiative in an effort to ease trade tensions. Unimpressed, the US team threatened retaliatory measures including removing Japan from the injury test in dumping complaints, changing automobile import quotas to include Japanese cars produced in the United States, and taxing technology export licenses to Japan. The US and EC teams signed a sweeping trade accord and began to negotiate a new "Bretton Woods" that excluded Japan. The US/EC accord, dubbed the "Group of Six (G6)" included provisions for reciprocal technology sharing, joint R&D programs, and joint sustainable energy programs. Japanese entry into the new grouping was conditioned on improvement of its global trade position. South Korea increased investment in China, targeted primarily at light industry and automobile production. South Korean-Chinese joint ventures occupied several automobile plants in the United States that were vacated by Japanese companies.

Saudi Arabia, receiving no satisfactory response from to Japan to its protests, made good on its threat of an oil embargo, forcing Japan to explore diversification of its energy sources. The Japanese Prime Minister resigned in the wake of a Control-orchestrated sex scandal and allegations of personal involvement in the Israeli ABM deal, but was immediately reelected. Japan increased its political and economic overtures to China and Russia.

Move II Adjudication ('The World in 2001'): The US and Japan entered a trade war. The combined effects of the oil embargo, the trade conflict, and a collapse of consumer confidence drove the Japanese economy into recession. Japan lost market access in North America and Europe and access to US technology. Japan was excluded from the G7 (now "G6") and was given explicit conditions by the US and EC for reentry. Export volume decreased significantly. The US team removed Japan from the injury test in dumping complaints, included Japanese cars produced in the United States in import quotas, and began to tax technology export licenses to Japan.

In the 2000 US presidential elections, Democrats retained the White House and a majority in the House of Representatives. Republicans captured a slim majority in the Senate. Reduced exports to Japan seriously damaged US agribusiness. US high-tech industry faced shortages of key components. The bilateral trade deficit with Japan was sharply reduced, but the US standard of living showed no commensurate increase. The US west coast was in recession. Hawaii was in depression. Consumer complaints about high costs of goods and declining living standards increased. The US team threatened to withdraw a Marine Expeditionary Force from Japan.

The LDP splintered. A coalition of moderate former LDP members and centrist opposition parties formed a government. Japanese nationalist factions became more vocal. Japan's overtures to Russia culminated in a visit by President Yeltsin in 1999.

Hostilities erupted in the Spratlys between China and Vietnam. The Hong Kong reversion to China turned bloody. Despite the events in Hong Kong, the economies of China, Taiwan, Korea and even Hong Kong continue to expand. North American-EC trade was expanding, and US-Japan trade declined precipitously.

Move III Highlights: Move III opened with a Control-orchestrated nuclear weapons accident in North Korea. Fearing escalation of the crisis, Japan asked for, and received, a reaffirmation of the US commitment to defend Japan. However, a US announcement of its intention to transfer 35,000 US troops from Japan to South Korea caused panic in Japan and eroded faith in the US-Japan defense relationship. The US announcement (later revealed to be an error) also prompted a strong protest by the South Korean government, which viewed the intended troop transfer as a violation of its sovereignty. Conservative elements of the former LDP regained power in a fragile coalition with right wingers. Japan's recession deepened and inflation increased dramatically. Consumer riots erupted in Tokyo.

The EC continued to grow economically and geographically. EC membership expanded to include Scandinavia, Russia, and much of Eastern Europe and the former Soviet Union, while several North African countries were admitted as associate members. The US and EC teams

signed a trade agreement that tariffed informal Japanese import barriers and established common tariff levels against Japanese exports. Removal of these tariffs was conditioned on Japan meeting import targets, reducing its global trade surplus, and increasing foreign direct investment. The United States agreed to double its troop presence in Europe to 20,000 and to provide \$1 billion per year for five years to finance a European Defense Force.

Facing few alternatives to close alignment with the United States, Japan capitulated to US and EC (G6) economic demands and reaffirmed its defense ties with the United States. Japan agreed to increase the level of FDI in Japan to 5% over the next four years, to increase US aircraft imports, to open 40% percent of procurements for its communication highway project to US bids, and to open Japan to imports of US rice. Japan also agreed to purchase \$20 billion in US auto parts. Japan reopened its production of automobiles in the United States, and renewed its co-production deals with the US aerospace industry. In addition, Japan pledged \$100 billion in direct investment in the enlarged EC with guarantees of technology transfer.

Kim Jong Il was deposed by the North Korean military, effectively defusing the Korean crisis. South and North Korea agreed to open communications lines between the two countries and to allow mutual inspection and placement of permanent observers at military and nuclear sites and along access routes to the demilitarized zone. Saudi Arabia ended its oil embargo after Japan apologized for its ABM collaboration with Israel and promised to invest in the West Bank.

Key Judgments:

- The exercise provided an unrealistically propitious environment in which to conduct a hard-line trade strategy toward Japan. The US team was able to de-emphasize foreign policy and domestic concerns to an extent that would be impossible in the real world. The secretaries of state and defense had virtually no input in policymaking. Stronger representation of US public and industrial opinion, Japanese lobbying and more real-time economic information would have made pursuing such a hard-line policy politically very difficult.
- In pursuing its hard-line policy, the US team gambled that Japan would have no alternatives to close trade and security relations with the United States. The US was able eventually to force the concessions it sought, but only after causing serious damage to the US economy and sending Japan into recession and political disarray. Several players referred to the US strategy as a "dicey game" and spoke of "new respect" for the risks inherent in such a trade strategy.
- The exercise demonstrated significant Japanese dependence on the US market, US technology, and the US security guarantee.
- Control entered the exercise with the assumption that "Asia is a dangerous place." However, despite the introduction by control of several major crises in the region, no major conflict occurred.
- Europe appeared to be the primary beneficiary of the US-Japan trade war. Europe was

able to expand both economically and geographically. Europe was able to obtain preferential trade treatment and funding for its defense from the United States, oil guarantees from Russia, and foreign investment and technology transfer from Japan. Political and economic stability were achieved in Central and Eastern Europe.

- South Korea had little influence on global affairs, but was able to "maneuver around the periphery." South Korea was able to exploit the US-Japan trade war by increasing its presence in the US market. Improved relations with China and the North enabled South Korea to redirect defense spending toward other domestic and foreign policy concerns.
- Little changed in China. Dengxiao Ping, who survived the exercise, was able to pursue a policy of "liberal reform and political repression" while achieving rapid and sustained economic growth.
- Russia spent most of the exercise on the periphery of US and Japanese concerns. The Russia team focused inward, concentrating on stabilizing its domestic economy and political situation.
- Despite highly contentious trade relations, the US-Japan Mutual Security Agreement remained intact throughout the exercise. Control viewed this as highly unrealistic.