The peculiar bilateral relationship between the United States and Japan has long found unhappy expression on the island of Okinawa, where the preponderance of U.S. forces in Japan is based. Although Okinawa was a prefecture of Japan prior to World War II, its situation in that era more closely resembled that of nearby Taiwan, which was a Japanese colony. Like Taiwan, Okinawa was a poor, largely plantation-based economy dominated by the Japanese “homeland.” But unlike Taiwan, which since the war has developed in spectacular fashion into one of the world’s largest trading powers, Okinawa remains mired in a state of chronic economic stagnation, high unemployment, and lagging income growth. The economy is dependent on the “three Ks” --kichi (U.S. military bases), kokyo-koji (Japanese-funded public works), and kanko (Japanese tourism).

Part of the reason for Okinawa’s continuing underdevelopment is the U.S. military presence, which has preempted much of the island’s usable land and infrastructure, physically obstructing some potential development initiatives, and imposing a myriad of social and environmental burdens on the islanders. The U.S. bases occupy about 20 percent of Okinawa’s territory, but employ only about 1 percent of the population. (The resulting scarcity of land on the island has driven up property prices to extremely high levels.) The bases are the island’s largest single source of income, but have done little to stimulate the development of major civilian economic sectors. The island lacks an industrial base, with only 6.3 percent of its work force engaged in manufacturing.

Less recognized is the fact that over time the island’s very real prospects for economic development have been sacrificed to the greater imperatives of Japanese industrial policy. Thus, while Taiwan aggressively courted foreign investment in the 1960s and 1970s as an integral part of its successful development strategy, in Okinawa, Japanese bureaucrats used every administrative and legal tool at their disposal to delay, discourage, and ultimately prevent foreign multinationals from establishing a manufacturing presence on the island. By so doing they protected the mainland market from a perceived threat of foreign entry, but at the same time deprived Okinawa of what was perhaps its best economic development opportunity since the War.

A massive inflow of foreign investment into Okinawa was imminent in the late 1960s, at a time when U.S. multinationals were seeking to use the island’s reversion to full Japanese sovereignty as a stepping stone for entering the Japanese market--much as foreign firms
used Hong Kong to enter the Chinese market in and after the 1970s. There is little doubt that those investments, had they been allowed to proceed, would have transformed the Okinawan economy—indeed, at the time some Japanese political leaders argued (in vain) that for Okinawa’s sake, such investments should be not only allowed but encouraged. Similar U.S. investments were underway concurrently in Malaysia, Thailand, South Korea, and other parts of the East Asia; and their contributions of capital, training, and technology were an import element in the “Asian economic miracle.” Japan’s suppression of U.S. investment in Okinawa in the late 1960s and early 1970s—and the failure of Japanese manufacturing industries to provide a significant alternative source of investment—was an important reason why the Asian miracle did not reach this island.

The U.S. government’s passive stance at a time when Japan was systematically scuttling U.S. business initiatives shows scant concern by U.S. policymakers either for Okinawa’s economic development or the broader efforts of U.S. companies to open the Japanese market. The U.S. government stood aside as the Ministry of International Trade and Industry (MITI) strong-armed U.S. firms into abandoning or scaling back their investments on the island, in some cases acquiescing in what amounted to a forced divestiture of assets. With U.S. forces heavily engaged in Vietnam, the American side was fixated on the need to secure guarantees that would permit the U.S. to maintain its large military and intelligence presence on the island. A unique opportunity to create a better economic future for Okinawa, as well as to increase the openness of Japan’s market, was lost.

The Okinawan “Loophole”

In the 1960s, the United States exercised complete administrative control over Okinawa, although Japan retained formal “sovereignty.” U.S. firms were thus in a position to establish local operations in Okinawa without confronting any of the constraints that applied to foreign investment in the rest of Japan. The islands were nominally administered by the Government of the Ryukyu Islands (GRI), the Ryukyu Legislature, and the Ryukyu Courts, but their actions were subject to review and veto by a U.S. High Commissioner. Until reversion in 1972, Okinawa was treated by Japan as a foreign country for trade purposes under the Foreign Exchange and Foreign Trade Control Law (1949), although import of primary products from Okinawa into Japan was duty free.

In 1968, an “Okinawa Advisory Committee” was established under the office of the U.S. High Commissioner, consisting of representatives of Japan, the U.S., and the Ryukyus, with a mandate to “promote unification with the homeland in such aspects as independence of the Okinawa economy and improvement of social welfare” while avoiding “political problems.” The U.S. Civil Administration for the Ryukyus (USCAR) and the local Government of the Ryukyu Islands commonly approved foreign proposals for local investment, and by 1969 about 200 foreign firms were doing business on the island. Although until the late 1960s most of this foreign investment consisted of small businesses, the prospect existed that U.S. multinationals could invest in the island before reversion, so that when Okinawa once again became a Japanese prefecture, they would, in effect, be “inside” Japan.
Japanese leaders saw this potential as a mortal threat to their entire system of industrial and trade policy, and groped for a formula to block it. As the *Nihon Keizai* observed at the time, “MITI holds that one of the key problems concerning such economic integration [of Okinawa] is how to treat the ‘vested rights’ of foreign capital in Okinawa in light of the provisions of the Foreign Capital Law of Japan [1950] after reversion of the island. . . . In other words, the problem is how to block a kind of ‘loophole’ which may enable foreign capital to evade the restrictions imposed by the Foreign Capital Law of Japan” (*Nihon Keizai*, November 3, 1969).

Both the U.S. and Japan had neglected the island’s economy since the war, and Okinawan business leaders were ready to link up with any outside interest committed to investing locally. In the 1960s the island’s economy was almost totally dependent on expenditures by the U.S. forces--by one estimate 70 percent of Okinawa’s income derived from local industries providing goods and services to the U.S. bases. As U.S. High Commissioner Lt. Gen. Ferdinand T. Unger remarked tactlessly in 1968, if the U.S. bases disappeared, “the Okinawan community will revert immediately to a barefoot economy, dependent on sweet potatoes and fish” (*Mainichi*, October 8, 1968).

The U.S. military presence, although contributing income, was strongly resented by the islanders--many of them had been evicted from their property to make room for airfields and bases, and common complaints included crimes committed by U.S. soldiers, pollution, noise, airplane crashes, and the use of an Okinawan hillside as an artillery range. At the same time, Japan could not lay much claim to Okinawan loyalty. Japan had treated Okinawa like a colony before the war and in the view of many Okinawans, “Japan has done nothing for the benefit of Okinawa for twenty-two years since the end of the last war” (*Mainichi*, January 28, 1968). Okinawans supported a return to Japanese administration in part because of a mistaken belief that reversion meant the U.S. bases would be closed and that Okinawa would come under Japan’s “peace constitution.”

In 1967, just as the reversion of Okinawa to Japan was coming to the fore, Japanese policymakers began to receive reports that some U.S. firms--particularly oil companies--were actively moving to invest in Okinawa. U.S. companies were purchasing shares in Okinawan companies and had acquired substantial equity interests in influential local firms such as Orion Beer and Ryukyu Cement. British and Chinese merchants were also reportedly prepared to shift their assets from Hong Kong to Okinawa if the chaos accompanying China’s Cultural Revolution spilled over into Hong Kong.

While the Japanese government could deplore foreign investment initiatives in Okinawa, it was “impossible for Japan to control foreign capital in Okinawa, since the right of decision [was] held by USCAR” (*Yomiuri*, October 12, 1969). Accordingly, the Japanese government did everything in its limited power to deter foreign investment schemes in Okinawa by pleading and cajoling the United States government to disallow such projects, invoking the relationship between the two countries, and badgering and threatening individual private enterprises--whether American, Japanese, or Okinawan--to abandon their involvement in projects in Okinawa.
The first immediate challenge confronting Japan from Okinawa proved relatively easy to contain. In 1968, Japanese policymakers became concerned that foreign beef exporters would use Okinawa to open a hole in the protective wall Japan had erected around its beef industry. At the time Japan maintained quantitative restrictions on beef imported into the home islands, as well as a 40 percent tariff, but imposed no quantitative restraints and only a 5 percent duty applied to imports of beef from Okinawa.

In the mid-1960s, significant volumes of Australian beef began flowing into Japan through Okinawa, which served as a “relay base.” In addition, Australian beef cattle were being bred in Okinawa, a trend that disturbed the Ministry of Agriculture and Forestry, not only because it disrupted the Ministry’s import program but also because if the situation were allowed to develop further, “foreign capital will inevitably advance into Okinawa.” The Japanese government therefore concluded an agreement with the Okinawan government (GRI) in which (1) certificates of origin would be revised to ensure clear distinction between Okinawa and foreign beef; (2) imports of beef into Japan from Okinawa would be limited to Okinawan beef; and (3) beginning in 1970, the volume of foreign beef imported into Okinawa would be curtailed. These arrangements continued in effect until reversion in 1972, at which time Okinawa was incorporated into Japan’s trade regime, and beef imports became “non-liberalized.” Import quotas were set for Okinawa on the basis of historic import levels, and the feared beef loophole was closed.

The Oil Company Threat

Other foreign initiatives were not so easily thwarted. In 1967, Gulf Oil announced plans to establish an oil refinery on Okinawa. The large (100,000 barrels/day) refinery would export its output to markets in East Asia, including Japan, and most of its output of naphtha was to be earmarked for sale in the Japanese market. Moreover, three other foreign companies--Esso, Kaiser Cement, and Caltex--also sought permission from the Government of the Ryukyu Islands to establish refineries on Okinawa. If all these projects had been approved, refineries with capacities totaling 2,300,000 barrels (equal to about 10 percent of Japan’s refining capacity) would have been established on Okinawa’s main island. In November 1967, MITI’s liaison office in Naha requested that GRI limit Gulf’s ownership share of any oil refinery established in Okinawa to under 50 percent. GRI ignored MITI’s plea and approved Gulf’s proposal for a 51-percent owned enterprise, with a large block of the remaining shares to be held by “a certain influential person in business circles in Okinawa who is close to Gulf” (Sankei, September 22, 1967). GRI also approved the other three applications by U.S oil producers and indicated that it would designate the area where the facilities were built as a free trade zone. The oil companies’ operations on the island were limited, however, to the free trade zones “to avoid conflict with homeland oil industry circles” (Sankei, March 4, 1970).

GRI’s outright defiance caused consternation at MITI. The Ministry possessed legal authority to regulate the importation and output of petroleum under the Oil Industry Law, so that even if U.S.-owned refineries were present in Okinawa when it reverted to Japanese administration, there was a constraint available to prevent the market disruption typically feared of foreign firms. But Japanese policymakers were troubled by the precedent set by
GRI’s independent attitude for other sectors which were not subject to special legislation, specifically automobiles, petrochemicals, and electronics.

While MITI could do little in practical terms except protest and threaten, it did this with considerable energy, expressing its “dissatisfaction toward the recent GRI policy to permit Gulf to invest capital to 51 percent,” and suggesting that GRI’s decision would be “called into question at the time of the reversion of administrative rights” (Nihon Keizai, January 10, 1968; and Mainichi, January 9, 1968). It also threatened to appeal directly to the U.S. government because the Okinawan government decision was “not favorable in the U.S.-Japan friendship aspect” (Yomiuri, January 19, 1968). And MITI issued warnings directly to the foreign oil companies. Its Mine Bureau Director and later vice-minister, Yoshihiko Morozumi, summoned the representatives of the four U.S. oil companies and “gave the representatives a two-pronged warning” that became known as the “Morozumi Principle”: (1) on the occasion of Okinawa’s reversion to Japan, Japan’s oil policy (Oil Industry Law and Foreign Capital Law) would be applied completely; and (2) even before reversion, the government would take adjustment measures so that confusion would not be caused in production and distribution (Mainichi, January 25, 1968). Even Prime Minister Sato weighed in, declaring that GRI’s decision to permit U.S. investment was “troublesome,” and Sato’s Director General of the Administrative Affairs Agency announced that he would make a 4-day visit to Naha: “On that occasion I will arouse the attention of the government of the Ryukyu Islands to the effect that four U.S. oil companies’ advance, as a method of advance of foreign capital, will pose an obstacle to the unification between Okinawa and the homeland and to reversion” (Mainichi, January 20, 1968).

From Bluster to Legal Control

U.S. firms could shrug off threats from MITI so long as Okinawa remained firmly under U.S. administration. But the Nixon-Sato summit in November 1969 established that Okinawa would revert to Japan in or around 1972, casting MITI’s warnings in a more serious light and raising basic questions about the future status of foreign investment on the island. In late 1969, buoyed by the fact that it would soon be extending its own authority to the island, MITI “clarified” three points to foreign firms doing business or considering investment on the island: (1) The existing ratio of shares of foreign firms in Okinawa enterprises should be lowered “by permitting Japanese firms to take part in these enterprises”; (2) administrative guidance “would be strengthened with respect to Japanese capital” involved in Okinawa joint ventures; and (3) any foreign firm starting up business in Okinawa with a business plan that “goes too far beyond the liberalization standard in Japan” should “pay sufficient consideration to Japan’s internal circumstances” (Nihon Keizai, November 3, 1969). MITI warned Japanese firms that cooperation with U.S. oil companies in Okinawa could hurt them in Japan: “As regards the handling of such cases, MITI intends to take a severe attitude, including curbing of permission for new construction or expansion of facilities of domestic manufacturers cooperating with advancing foreign capital” (Nikkan Kogyo, November 11, 1969).

The American Chamber of Commerce and Industry in Okinawa viewed MITI’s threats with concern. In October 1969, immediately prior to the Nixon-Sato summit, the Chamber
sent President Nixon a petition asking for an assurance that foreign investors would not lose vested rights after reversion and calling for the inclusion of this issue in the bilateral reversion negotiations. But the U.S. side appears to have given almost no consideration to this request or to the impact of reversion on U.S.-owned firms on the island. To the extent that the U.S. side focused on economic issues at all, it was on the need to secure monetary compensation from Japan for U.S. government assets (such as base areas and facilities) that would be transferred to Japan. By contrast, the Japanese side came to the Nixon-Sato summit with a well thought-out agenda on the issue of U.S. investment. Japan staked out several positions:

1) The government of Okinawa (GRI) should “fall into line” with Japan’s foreign capital policy even before reversion occurs “in order to prevent foreign capital from dashing into Okinawa.” It should not approve any additional investment proposals that are inconsistent with Japan’s highly restrictive foreign investment regime.

2) While Japan would “treat favorably” foreign firms that remained in Okinawa after reversion, it would require a change in the management structure of some enterprises that were “problematical,” e.g., those characterized by a higher percent of foreign equity ownership than permitted under existing Japanese law. Upon reversion, “capital of our country will be put in and the ratio of foreign capital will be changed to 50% or less.” MITI would “make it obligatory for such foreign capital to release or transfer its stocks.”

3) After reversion MITI would not permit the “unrestricted introduction of products into the homeland” that were manufactured by foreign-owned firms in Okinawa. In other words, it would, where appropriate, establish internal restrictions on the flow of goods from foreign facilities in Okinawa to the rest of Japan (Mainichi, November 14, 1969; Yomiuri, November 15, 1969). Because Japan was proposing at least a partial divestiture of U.S. interests, which was a denial of so-called national treatment (the commitment to treat foreign investors no differently from Japanese investors), the U.S. could have invoked the Treaty of Friendship, Commerce, and Navigation in defense of U.S. commercial and property interests. The Japanese side was in fact quite worried about this. But at the summit the U.S. side was preoccupied with security-related issues. One Japanese account of the summit observed that “foreign capital is demanding that its acquired rights in Okinawa be also recognized in the homeland. Fortunately, this matter did not become a main item at the Sato-Nixon conferences” (Mainichi, November 14 and 22, 1969).

The Joint Communique of November 21, 1969, memorializing the Nixon-Sato accord on Okinawa, merely provided that with respect to existing “United States business interests in Okinawa,” problems would be addressed through “detailed discussions” that were to be “initiated promptly.” The Japanese side interpreted this language as protecting only those U.S. firms already established in Okinawa and conducting “normal” business. So-called “rush-in” investors--firms like Gulf that had established subsidiaries in Okinawa as a backdoor mechanism for gaining entry into the Japanese market--were viewed as outside the scope of any protection afforded by the Joint Communique (Asahi, June 30, 1970).
It did not take long for the U.S. business community in Okinawa to experience a new assertiveness on the part of Japan. Several weeks after the Nixon-Sato summit, the Chairman of the American Chamber of Commerce in Naha visited MITI’s offices in Tokyo. He said that since, at the summit, the protection of vested U.S. rights on Okinawa had been “agreed” between the two governments, he would like an assurance from MITI that “American enterprises’ already-acquired interests be guaranteed after reversion.” But MITI responded that “the Ministry is not informed that guarantee of the already-acquired rights has been promised at the U.S.-Japan Summit Conferences.” MITI’s basic policy, which it had repeatedly stated, was that “it will take measures based on the Foreign Capital Law in the homeland when it adjusts the matter” (Nihon Keizai, December 9, 1969).

Eleventh-hour Expansion of Established U.S. Firms’ “Rights”

In the run-up to reversion, a number of U.S. firms attempted to increase their leaseholds of former Japanese national and prefectural government lands, which had been under USCAR’s management since the war, and to secure and expand factory sites through leases of publicly-owned surface of the seas or reclaimed seashore areas. The boldest single move was made by Gulf Oil. In late 1970, it was disclosed that USCAR had granted exclusive 60-year rights to Gulf Asia Terminal (a Gulf Oil subsidiary) to manage, administer, and control the surface of the sea and a part of the land area near a Gulf oil facility on Okinawa. Gulf was granted this monopoly with no obligation to pay taxes, tariffs, or port fees for the privilege. GRI complained that Okinawa’s Port and Harbor Law reserved the right to control ports and harbors to GRI, and that USCAR should rescind its directive granting Gulf the long term monopoly. USCAR justified its actions by stating that “GRI has not taken necessary measures for control of the port and harbor in the same sea area and clarification of the responsibility of Gulf Oil will be helpful to the safety of navigation and prevention of the contamination of sea water” (Asahi, November 14, 1970).

GRI could not overrule USCAR on such decisions in the near term, but it could lay the groundwork for rescission by the Japanese government after reversion. In 1970 GRI undertook a “survey” of all foreign capital enterprises on the island to determine whether they had invested before or after the November 1969 Joint Communique. Using such information, the Japanese government prepared to negotiate an agreement on reversion that would enable it to rescind offending rights held by foreign firms.

The interests of local U.S. businesses on Okinawa were represented by the U.S. Chamber of Commerce in Okinawa, backed by the American Chamber of Commerce in Japan (ACCJ) and the Asia-Pacific Council of American Chambers of Commerce (APCAC). APCAC placed a priority on maintaining the rights and interests of U.S. businesses in Okinawa after reversion, including maintaining the validity of business licenses, the continued freedom to remit profits, and avoidance of an exchange rate upon reversion that would disadvantage U.S. enterprises on the island. The Okinawa Chamber lobbied Congress and met on a regular basis with the U.S. Embassy in Tokyo and with various ministries in the Japanese government. These efforts were at least partially responsible for commitments by Japan that substantially protected the interests of established U.S.
businesses and licensed professionals. But the latter were mostly small firms serving the local economy, not multinationals capable of establishing major manufacturing operations. While the U.S. government was prepared to secure limited guarantees to protect U.S. businesses and individual professionals already established on the island, it signaled Japan even before the reversion negotiations began that it would not fight hard to defend the initiatives of the “rush-in” multinationals. U.S. officials pointedly offered no real objection to the Japanese side’s repeated declarations that Japanese law would be fully applied to U.S. firms in Okinawa after reversion. In June 1970 Foreign Minister Kiichi Aichi and Ambassador Armin Meyer met to discuss issues arising out of reversion. A State Department cable summarizing the meeting reported the following exchange: Aichi asked whether U.S. businessmen recognized that after reversion they would be subject to GOJ (Government of Japan) laws. Ambassador responded that while aware of this we are concerned that businessmen do not suffer as a result of reversion and that there be a grandfather clause and transitional period (U.S. Embassy Telegram 4116, Secret, June 6, 1970, Record Number 73959).

Meyer reported to Aichi in July that he had met with U.S. business interests in Okinawa to diminish their expectations: “On U.S. business interests, Ambassador noted [to Aichi] we had held discussions with U.S. businessmen in Okinawa which had resulted in their adopting more reasonable attitude than in the past” (U.S. Embassy Telegram 5397, Confidential, July 16, 1970, Record Number 73964). According to telegram 5397, Aichi replied to Meyer that Japan was planning to differentiate between U.S. firms that had been operating in Okinawa before the November 21, 1969, Joint Communiqué and “firms seeking entry through [the] quote back door unquote after November 21 Joint Communiqué.” Meyer reproached Aichi over this stance but in no way suggested to him that the U.S. would oppose it. He merely said that “MITI has completely exaggerated magnitude of quote back door unquote entry problem, which in fact appears minor,” and, in addition, “Ambassador also felt MITI approach not fair to Okinawans who seek new enterprises to promote economic development and provide employment.” But that was all.

**Reversion Agreement Negotiations**

In 1971, the U.S. and Japan began bilateral talks concerning the specifics of reversion. The objective was to conclude a comprehensive agreement allowing reversion to go forward on the target date of May 15, 1972. The U.S. priority in these negotiations was to secure the maximum continued flexibility for U.S. military and intelligence forces on Okinawa after reversion. Issues included matters such as continuation of Voice of America broadcasts (which Japan demanded be discontinued), presence of U.S. intelligence training and operations in Okinawa, and basing U.S. Special Forces and psychological warfare teams on the island. The “U.S. attitude of desiring the maintenance of the base functions was extremely firm,” to the point of the U.S. side requesting that Japan refrain even from pressing demands on these issues in too vigorous a manner. The Japanese side, by contrast, was willing to make concessions on military and security issues but remained adamant that U.S. multinationals seeking to do business on Okinawa would be fully subjected to Japan’s legal regime and would not be permitted to disrupt Japan’s domestic economic order after reversion.
The Japanese government sharply distinguished between long established U.S. businesses on Okinawa and so-called “rush-in” multinationals. The former, consisting mostly of small businesses and professionals (doctors, dentists, lawyers), posed no real threat to Japanese industrial policy and provided needed local services on the island. They also wielded considerable influence within the Chamber of Commerce and with the U.S. Congress. Japan proposed explicit guarantees for these companies and individuals—a total of 327 enterprises, most of them small businesses and individual professionals. On the other hand, no guarantees whatsoever would obtain for what the Japanese called “rush-in” U.S. multinationals. MITI declared that “non-obedient enterprises [would be] contained in a free trade zone so as to prevent their affecting industrial circles at home”—that is, their business premises would be designated as “free trade zones” and any movement of goods outside their zones would be treated as an “import” into Japan, subject to all applicable tariff and quota restrictions (Nihon Keizai, April 7, 1971).

The United States’ formal opening position in the reversion negotiations was that all foreign vested rights in Okinawa should be recognized after reversion, including investments applied for and approved after the November 1969 Joint Communiqué. But in the negotiations, the U.S. side emphasized only the need to secure a Japanese written guarantee of the vested rights of small and medium enterprises (such as laundries and grocery stores) as well as doctors and lawyers. The treatment of the multinationals was, in effect, left entirely to the discretion of the Japanese government.

During the period this framework was being established, the Japanese government steadily increased pressure on individual U.S. projects, with the result that one by one, they were abandoned, converted into joint ventures that later failed, or scaled back to such a degree that they could not be viable over the long run. The systematic suppression of the “rush-in” investments certainly served to protect Japan’s domestic market from foreign competition, but it also dealt a blow to Okinawan aspirations for economic development from which the island has not recovered to this day. One representative of the government of Okinawa complained afterward that “The mainland government attempted to destroy all foreign capital which the Ryukyu Government tried to bring in” (Research Department of the Bank of the Ryukyus, Sengo Okinawa keizaishi [History of the Postwar Okinawa Economy], March 31, 1984, p. 1072).

MITI would have preferred an arrangement under which the Ryukyu government acted as its surrogate during the interregnum preceding reversion. To this end MITI proposed establishment of a consultative organ through which it could convey its approval or disapproval of a given transaction to GRI. But Okinawa did not cooperate. In February 1970, the Ryukyu government granted Gulf and Esso licenses to conduct business throughout Okinawa, not merely within the confines of the free trade zones.

On March 12, 1970, Okinawa’s Chief Executive Chobyo Yara gave a further shock to Japanese government and industry leaders by declaring at a press conference that, “In induction of foreign capital, we will give priority to the prefectural interests of Okinawa and will not be submissive to the homeland government” (Yomiuri, March 14, 1970). The following day, MITI reiterated its call for a “regular consultative organ” between MITI and
the Okinawan government, suggesting that if GRI did not cooperate, it would submit foreign investment applications for Okinawa to the Foreign Investment Deliberation Council (FIDC, Gaishi Shingikai) in Tokyo for review. The Ministry of Finance appointed all the members of the FIDC, but its decisions were guided by MITI. If the FIDC disapproved applications from foreigners it would have the effect of “clarifying to the foreign capital enterprises that [the Government of the Ryukyu Islands] cannot protect them even if the GRI may approve their advance” (Yomiuri, March 14, 1970).

**Containing the Oil Companies**

Among the most aggressive foreign firms were three oil companies, Gulf, Esso, and Caltex, which were pressing ahead with plans to construct refineries on Okinawa (a fourth refinery venture, backed by Kaiser, ended when Kaiser withdrew from the project). Gulf’s proposed refinery attracted MITI’s particular antipathy because unlike the other two, Gulf had no Japanese joint venture partner to constrain its actions. As MITI saw it, Gulf’s entry into Okinawa was “a ‘hasty advance’ for the purpose of landing in the homeland market after reversion, and the granting of permission for the planned advance at this time will cause unnecessary confusion among Japanese oil industry circles.” Gulf had actually secured approval to build a refinery in January 1968, but it had taken no steps to start construction, limiting its activity to establishment of relay facilities for crude oil. Then on November 10, 1969—immediately prior to the formal announcement of Okinawa’s reversion at the Nixon-Sato summit—Gulf declared it was beginning construction of the refinery.

In late November 1969, MITI invited a Gulf executive to its offices to discuss Gulf’s refinery plans. MITI told him that Gulf’s plan was a “matter for regret” and asked him to reaffirm the two-point “Morozumi Principle.” MITI also warned that even if Gulf “landed” in Japan, “it will not bring any benefit to that company” (Nihon Keizai, November 14, 1969; Tokyo Shimbun, November 30, 1969). MITI indicated that it would “place strong restrictions on Gulf’s bringing its products into the homeland if it carries out the construction of a refinery.” In December 1969, MITI’s Mining and Coal Bureau director Sanae Honda told Gulf president P. E. Holloway that “It is desirable that you cancel the construction plan voluntarily” (Sankei, December 19, 1969).

In April 1970, MITI disclosed its “concrete plan” for dealing with foreign oil firms investing in Okinawa. First, in situations in which Japanese oil companies tied up with foreign firms in Okinawa, MITI would deny approval for the establishment or expansion of facilities by the Japanese firms. Second, the construction sites where foreign firms were building oil refineries would be designated as “free trade zones,” and economic activities by these firms outside the zones would be prohibited. Finally, tariffs and quantitative restrictions would be imposed on oil products “imported” into Okinawa or Japan through the free trade zones. The foreign companies in the zones would be regarded as “companies solely for export” (Nikkan Kogyo, April 9, 1970).

By this time, Gulf had already begun to weaken. For months reports had been circulating that Gulf was making overtures to Japanese firms for a tie-up arrangement— an indication
that MITI pressure on Gulf was working. After Gulf informally “sounded out” Kyodo Oil, the Japanese government’s preferred and subsidized oil “major,” MITI reportedly indicated that “a tie-up with Kyodo Oil will be inevitable under the condition of restricting Gulf’s scope of activity.” Gulf also sounded out Idemitsu Kosan, which was a purchaser of crude oil from Gulf; Idemitsu “evaded an immediate reply,” awaiting a reaction from MITI. These moves caused MITI to soften its stance toward Gulf, although it also warned that in tie-up negotiations, “guidance will be given to change the domestic- and foreign-capitalization rate from 50-50 to about 55 percent in favor of the Japanese side” (Nihon Keizai, January 7, 1970).

On April 20, 1970, a Gulf executive called on MITI Mine and Coal Bureau Director Honda in Tokyo and said that Gulf was prepared to accept the two-point “Morozumi principle,” which had been articulated in 1968 by then-Director Morozumi—full application of Japan’s Oil Industry Law and Foreign Investment Law to foreign firms and “necessary adjustment measures” to prevent “confusion” in the Japanese oil refining and distribution sectors. Therefore, the Gulf executive argued, MITI should now permit Gulf to invest in Okinawa. But MITI had six additional requirements: (1) Gulf must enter a 50-50 joint venture arrangement with a “Japan-affiliated” oil company; (2) Gulf must agree not to engage in wholesale or retail trade but rather to tie up with a single Japanese sales company; (3) new facilities acquired in the deal by Gulf’s joint venture partner would be subtracted from the Japanese company’s new facility allowance, as set by MITI, thereby making a joint venture less attractive to a Japanese firm; (4) Gulf would supply crude oil to the joint venture at a rate no greater than its proportionate level of investment; (5) Gulf would endeavor to use so-called Arabian crude oil, which Japan imported under preferential terms and regarded as “semi-domestic crude”; and (6) Gulf would follow MITI’s guidance in terms of its operating rates. In the end, Gulf indicated it would accept all of MITI’s conditions. Gulf was also required to accede to one additional demand—to allow 50 percent participation by another Japanese company, Kyodo Oil, in Gulf’s subsidiary, Gulf Asia Terminal, which operated a crude oil transit station in Okinawa (see Research Department of the Bank of the Ryukyus, op. cit., pp. 1047-49; Nihon Keizai, May 29, 30, 1971).

Gulf’s virtual capitulation cleared the way for MITI’s approval at the end of 1971 of Gulf’s investment in Okinawa. Under the final joint venture arrangement approved by MITI, Gulf would hold only 40 percent of the outstanding equity shares, with another 40 percent held by Toho Oil, a joint venture company between Idemitsu, Chubu Electric, and Mitsubishi Trading, and 20 percent held by Mitsubishi Chemical. The actual marketing of the joint venture’s petroleum products in Japan and Okinawa would be conducted by Idemitsu. Gulf’s decision to “follow the Japanese government’s conditions totally” was followed by a similar decision on the part of Esso to enter into a 50-50 joint venture arrangement with a Japanese oil company.

As a result of five years of maneuvering, three oil refineries were operational in Okinawa by the time the island reverted to Japan in May 1972. However, if any of the foreign firms still viewed these projects as a back door to Japan’s domestic petroleum products market, they soon found that they were so hemmed in with restrictions they not only could not significantly expand sales into Japan, they could not operate on an economic basis at all. In
1972, MITI set quantitative restrictions on the volume of crude oil that could be processed by each facility. Gulf and Esso pleaded with MITI to increase their quotas, saying that they could not “conduct operations under the present situation, . . . the operation rates as such cannot pay.” MITI refused, however, based on concerns raised by Japan’s domestic “oil industry circles.”

During the next several years, Gulf gradually withdrew its stake from Okinawa Oil Refining Co., its joint venture with the Japanese companies. The company became a 100 percent Idemitsu subsidiary in 1980 and remains so today. According to a historian from the Bank of the Ryukyus, in spite of the Okinawan government’s high hopes that foreign-affiliated oil refining businesses would become a source of future growth for the Okinawan economy, the mainland government destroyed the “possibility for large-scale entry by foreign capital,” restricting oil refining businesses while expanding crude oil transit stations, which were perceived by Okinawans as holding “little merit for the Okinawan economy” (Research Department of the Bank of the Ryukyus, op. cit., p. 1059).

Semiconductors

Although Texas Instruments had used its integrated circuit patents as leverage to establish a subsidiary in Japan, MITI sought to delay additional U.S. investment on a 100-percent capital participation basis in this strategic sector. In 1969, it took an extremely negative posture toward approval by the Okinawan government when Fairchild and National Semiconductor applied to establish 100-percent owned subsidiaries in Okinawa to manufacture semiconductors. The Okinawan government nonetheless approved Fairchild’s application despite MITI’s warning that these two firms “are aiming to advance into the homeland after the reversion of Okinawa [and] that will mean a ‘loophole’ in the capital liberalization policy of our country” (Mainichi, February 19, 1972).

In March 1970, MITI gave “strong warnings” to Fairchild and National that it would not “approve any of this kind of rush-in.” It summoned representatives of the two firms and bluntly told them that they had to give up their plans. If they chose to disregard this advice, “MITI will seek their withdrawal after reversion.” MITI said that Fairchild’s plans were “especially malicious” because the firm sought approval under the “pretext of export business and repair” when its actual plan was to secure approval for a production facility—their plan was a “frontal challenge to the foreign capital policy of our country.” Were these firms to gain entry into Japan as a result of their presence in Okinawa, “There is a great fear that this may cause confusion among Japanese industrial circles concerned, which are now on the road to technical development, while dealing a blow to those circles” (Nikkan Kogyo, May 30, 1970).

When Fairchild appeared to disregard these warnings and pressed ahead with its plans to construct a wholly owned semiconductor manufacturing plant in Okinawa, MITI indicated that it would promote “the advance into Okinawa of Japanese electronic parts manufacturers,” using preferential tax and financial measures, “with the aim of improving the setup for interception in Okinawa.” MITI further warned Fairchild that Japan would suspend imports of Fairchild-produced integrated circuits into Japan; that it would deny
Fairchild the legal authority to establish a branch office in Japan; and that it would disapprove any proposed joint venture between Fairchild and a Japanese firm to produce large scale integration (LSI) semiconductors, a measure that would derail Fairchild’s pending request for approval of a 50-50 joint venture with the Tokyo Electron Research Institute. MITI also seems to have used administrative guidance on the Nippon Electric Company (NEC), urging NEC to refuse to release Fairchild from licensing agreements that hampered Fairchild’s independent entry into Japan. Fairchild had granted NEC exclusive rights to produce and sell integrated circuits in Japan that had been developed by Fairchild. Fairchild wanted to rescind this arrangement, open a sales office in Japan, and sell its own ICs there directly (see *Nihon Kogyo*, January 23, 1971).

Such threats, if carried out, would have been sufficient to destroy Fairchild’s commercial position in Japan. In April 1971, Fairchild abandoned its insistence on a 100-percent owned subsidiary and agreed in principle to a 50-50 joint venture with a Japanese company. Its proposed joint venture partner, however, the Tokyo Electron Research Institute, was unacceptable to MITI because it was much smaller than Fairchild. MITI feared that the right to manage the proposed company might be acquired by the U.S. side. In addition, MITI warned that the proposed joint venture would result in “excessive competition” with respect to Fairchild’s principal product, digital voltmeters (*Nihon Keizai*, July 8, 1970). At length, Fairchild was permitted to enter into an arrangement under which TDK Electronics, a Japanese firm, acquired a 50 percent interest in Fairchild’s Okinawan operation. This arrangement satisfied MITI’s industrial policy concerns but proved to be the death knell for Fairchild’s Okinawan initiative. Essentially a forced joint venture, it was plagued with difficulties, and the partners shut down the operation in 1977.

National Semiconductor’s parallel project, which was not as far along as Fairchild’s, was more easily extinguished. As of the end of March 1972, with reversion less than two months away, National’s application for approval was still pending before the Okinawan government. MITI, characterizing this proposal as a “vicious case” of rush-in investment, told National that even if the GRI’s Foreign Capital Deliberation Council recommended approval of National’s proposal, Okinawa would revert to Japanese sovereignty on May 15, before the Okinawan government could act on the recommendation. After May 15, Okinawa would be subordinated to Japanese administration. National was directed to find a Japanese joint venture partner, or, failing this, to take one designated by MITI. Its executives roamed Japan, looking in vain for an acceptable partner; one commented, “We are looking for a wife to avoid a forced marriage.” These efforts failed, and National withdrew from Japan (see *Electronic News*, May 15 and 29, 1972; as cited by Mark Mason, *American Multinationals and Japan: The Political Economy of Japanese Capital Controls, 1899-1980*, Council on East Asian Studies, Harvard University, 1992, p. 222).

**Aluminum**

In early 1970, MITI received reports that Alcoa, the world’s largest producer of aluminum, had submitted an application to the Okinawan government for a 100-percent owned aluminum-refining facility with an annual capacity of 70,000 tons. MITI warned that the application was “aimed at advancing into the homeland after the reversion of Okinawa” in
an industry in which capital liberalization had not taken place (Mainichi, March 3, 1970). The Okinawan government was reportedly inclined to approve Alcoa’s application—“the Okinawan side . . . desires very eagerly an aluminum factory which can become one of the pillars for industrialization.” However, it could not ignore Japan’s antipathy to the proposal, and, as one Okinawan observer commented, the Okinawan side would require Japanese support in many areas and, if the application were approved, “We fear that they may take revenge in an entirely unrelated manner” (Asahi, March 4, 1970).

MITI’s plan for thwarting Alcoa’s initiative was based on the practical reality that Okinawa lacked the capability to supply electricity to more than one aluminum smelter. Accordingly, MITI encouraged Japan’s five aluminum producers to propose their own joint venture to the Okinawan authorities. The Japanese government would facilitate this effort with special tax concessions and low-interest loans from the Export-Import Bank of Japan. The joint entity, “Okinawa Aluminum,” would produce power to support aluminum smelting and sell the excess power to the public; it would also produce 50,000 tons of aluminum per year and would involve 90 billion yen in investments. MITI asked the five aluminum firms to take this preemptive step because of its concern that “the aluminum market in Japan may be driven into chaos after reversion if Alcoa starts aluminum production in Okinawa” (Nihon Kogyo, May 22, 1970).

Okinawa agreed to reserve action on Alcoa’s proposal until after it had received the Japanese counterproposal. Meanwhile, the five Japanese firms did not appear to view the project so much as a business opportunity as a tactic for heading off Alcoa. An executive from one of the five, Ichiro Nakayama, president of Japan Light Metals, said that “Advance into Okinawa by the five aluminum-refining companies was considered, at first, to be aimed at blocking Alcoa with its 100 percent foreign capital” (Sankei, May 19, 1971). The Okinawan government was nonetheless torn between the two proposals and attempted to find a middle ground. It approved Alcoa’s application on June 1, 1970, but only on the condition that Alcoa conform its operation to the Foreign Investment Law of Japan after reversion. As a practical matter, this meant Alcoa could only proceed on a 50-50 joint venture basis with a Japanese aluminum producer. However, all five Japanese producers were committed to MITI’s proposed consortium—and presumably would boycott any joint venture with Alcoa—so that “Alcoa will be barred from Okinawa as long as the five firms maintain their unity.” The five firms’ unity was precarious, however, and rumors were rife that Mitsubishi Chemical, the only one of the five that already had a business relationship with Alcoa, would break ranks and enter into a 50-50 joint venture with the U.S. firm. Alcoa’s Australian subsidiary already supplied Mitsubishi Chemical with aluminum ore.

Mitsubishi reportedly “dropped away from [the other four] companies without making any explanation in advance.” Worse, Mitsubishi Chemical was reportedly in talks with Gulf Oil concerning a joint oil refining venture that would have secured it a reliable supply of naphtha—an arrangement that could have contravened MITI’s policy of limiting Gulf’s ties to a single Japanese oil sales company. MITI summoned Mitsubishi Chemical executives in June 1970 and warned them that if these reports were true, MITI would provide no support measures (such as preferential tax measures and Export-Import bank loans) for Mitsubishi’s investments. Mitsubishi responded with assurances that it would participate in the five-company aluminum venture and would not tie up with Alcoa.
In early 1971, after a year of obstruction by MITI, Alcoa notified Okinawa that it was abandoning its plan to open an aluminum manufacturing facility there. But as soon as Alcoa’s decision became known, the five Japanese producers began losing their own enthusiasm for their aluminum project in Okinawa. The Japanese companies’ zeal diminished still further when they learned that the Government of Japan would provide only half of the promised support, such as tax breaks and low-interest loans. The representatives of Okinawa Aluminum argued that, with only half of the requested government support, the new company would lose 10,000 yen for every ton of aluminum produced in Okinawa. Moreover, a decrease in domestic demand had forced domestic aluminum producers to reduce their output, and they feared that a new aluminum plant in Okinawa would exacerbate the existing overcapacity. Finally, the five Japanese producers ran into strong environmental opposition from local residents in Ishikawa City, Okinawa, where they planned to build the plant. So, in the end, Okinawa did not get an aluminum plant under either U.S. or Japanese ownership.

**Blocking U. S. Banks**

In the spring of 1970, the Finance Ministry disclosed that the Bank of America, First National City Bank, and other major U.S. banks were preparing to acquire the stock of the Bank of the Ryukyus, Okinawa’s largest financial institution. It warned that if the Bank of Ryukyus became a subsidiary of a big U.S. bank, the Okinawan economy would be placed under the strong influence of U.S. capital. The Finance Ministry had its own plan for the Bank of the Ryukyus—it wanted to turn it into “the base for local development of Okinawa after reversion.” Also, such investment by U.S. banks would open a loophole in Japan’s policy of prohibiting foreign investment in its banking system.

USCAR had established the Bank of the Ryukyus in 1948 and owned 51 percent of it. In the initial negotiations over the terms of reversion, Japan had not offered to purchase USCAR’s shares in the bank, viewing the bank as “weak.” However, with the reports that U.S. banks were considering acquiring the shares, this attitude changed—the Japanese government began to debate whether USCAR’s shares should be transferred to “Okinawan banking circles” “in an effort to prevent American banking capital’s advance.” The Finance Ministry drew up a plan which would consolidate the Bank of the Ryukyus with another local institution, the Okinawa Bank. It secured “fundamental consent” from USCAR that its 51 percent stake in the Bank of the Ryukyus could be transferred to Japanese and/or Okinawan shareholders prior to reversion and that the Bank of the Ryukyus “shall not become a foreign bank after reversion” (*Nihon Keizai*, June 29, 1970). In September the Ministry disclosed that the “Japanese side” would in fact purchase all of USCAR’s 51 percent interest in the Bank of the Ryukyus, but out of deference to Okinawan sensibilities, the big Japanese city banks would not be permitted to buy shares. Instead, the Ministry would oversee the transfer of USCAR’s shares to the bank’s existing Okinawa shareholders and “Okinawan economic circles deeply connected with the bank” (*Asahi*, September 16, 1970).
As a result of these moves, several large and dynamic U.S. banks, which might have provided needed capital for the island’s economy as well as management skills, were forestalled from playing any role in Okinawa. Here again, “foreign capital” was held at bay, but the result cannot be said to have brought Okinawa much economic benefit. Twenty-seven years after these events, the Bank of the Ryukyus was urgently seeking to squelch rumors that it was on the verge of bankruptcy (Kyodo, January 8, 1998). While bank officials assured the public that these reports were “totally groundless,” the bank was by any measure in perilous condition, with an extremely weak capital ratio, outstanding nonperforming loans nearly double its reserves for possible losses, and financial analysts declaring that it should cut back its loans by about 50 percent to restore its viability. The bank had hardly blossomed into the kind of institution that Japanese policymakers had hoped would function as an engine of economic development.

**Insurance**

The prospect that U.S. insurance companies might use Okinawa as an entry into Japan was eliminated before serious U.S. initiatives got under way. At the time of the reversion negotiations, eight foreign insurance companies held licenses from the Okinawan government to provide casualty insurance in Okinawa, and some foreign insurance companies were selling life insurance to U.S. servicemen, military civilians, and their families. Of these, six also held licenses to sell insurance in Japan itself. However, two firms, Fireman’s and American, held licenses to sell casualty insurance only in Okinawa and not Japan. The Finance Ministry announced in May 1971 that these two firms would not be given licenses to sell insurance to Japan after reversion, thus limiting their business to Okinawa.

As a result, “the two companies have been forced to give up their aim to expand their business activities all over Japan after the reversion of Okinawa.” In addition, the Finance Ministry indicated that it would begin monitoring the moves of the U.S. life insurance companies in Okinawa, which, it was reported, were planning to sell insurance to Japanese citizens after reversion. The effect of the monitoring would be to “freeze the status quo” (Asahi, May 27, 1971).

**The Free Trade Zone Controversy**

The conflict between Okinawan economic aspirations, the demands of Japan’s industrial policy, and the strategies of U.S. multinationals resulted in a tangled controversy over the question of whether after reversion part or all of Okinawa would be designated a free trade zone. The issue was joined in 1967, when the Government of the Ryukyu Islands approved the four U.S. oil companies’ investment proposal, concurrently indicating that it would designate the area where the refineries were located as a free trade zone. In taking this action, Okinawa’s Chief Executive remarked that his government was considering designating the whole island of Okinawa as a free trade zone, “like Hong Kong.” This proposal caused even greater consternation among Japanese policymakers than the initiatives of the oil companies. MITI expressed bafflement and concern and began a “full scale study” of the proposed free trade zone.
Okinawa already had small free trade zones in the vicinity of Naha Port. Established in 1960, these zones were devoted to several U.S.-owned labor-intensive light industry assembly operations (transistor radios, sewing machines, gloves, umbrellas) using mainly Japanese components. Japanese industry actually welcomed these zones because they increased parts exports and utilized Okinawa’s cheap labor force. But the new free trade zone under consideration--possibly embracing the whole island--was another matter entirely. Japanese policymakers saw several motives behind the Okinawan government’s proposal: first, that “GRI is positively hoping for the advance of U.S. capital” for developmental purposes; second, that Britain was reportedly regarding Okinawa as a “replacement” for Hong Kong; and third, that U.S. firms from many sectors planned to use Okinawa as a device to circumvent Japan’s capital investment restrictions (Sankei, March 10, 1969). Against this background, MITI’s first impulse was to resist any expansion of the existing FTZs and to eradicate them after reversion.

But this initial reflexive opposition soon gave way to the recognition that the FTZ legal device could be used to advance Japan’s industrial policy objectives in Okinawa--specifically, to block efforts by foreign firms to use Okinawa as a back door into the Japanese market and to promote the growth of the Okinawan economy after reversion. In 1970, MITI began to wield the FTZ as a defensive weapon against foreign multinationals planning manufacturing operations on the island. Confronting foreign firms that clung to the hope of 100-percent owned subsidiaries, MITI warned that they would be “contained” within free trade zones, if necessary by designating their facilities in Okinawa as mini-FTZs fully subject to Japan’s import tariffs, quotas, and other restrictions. Start-up enterprises would be required to locate and be “contained” within a new FTZ scheduled to be established around Naha Port (Sankei, November 1, 1970).

Okinawans and some Japanese leaders saw the FTZ as a policy instrument for promoting the development of the island’s economy. In early 1970, an influential Diet member from Kagoshima (Nakasone faction) and at the time the director general of the General Affairs Agency in the Prime Minister’s Office, Sadanori Yamanaka, advanced a proposal designed to stimulate the Okinawan economy and eventually raise Okinawan living standards to the “homeland level” (Mainichi, March 16, 1970). The plan featured incentives to encourage Japanese enterprises to invest in Okinawa, but the most important element was Yamanaka’s proposal that “we wish to establish an international free trade zone like the Takao area of Taiwan or like Hong Kong.” Specifically, he proposed that a free trade and industry zone be established near Naha Port, where foreign manufacturers would be permitted to invest freely and import raw materials and parts duty free. In addition, free trade and commercial zones would be established in Naha City and Koza City (adjacent to Kadena Air Force base, renamed Okinawa City after reversion) where Japanese tourists could buy duty-free imported goods. Local Okinawan sentiment supported Yamanaka’s proposal to entice foreign investors--many felt that “the advance of foreign capital is linked with the development of Okinawa” (Tokyo Shimbun, March 13, 1970).

But Yamanaka’s proposals ran into a solid wall of opposition from Japan’s bureaucrats. All the Ministries had negative reactions. MITI warned that foreign manufacturers would not
be satisfied with beachheads in the free trade zones and would soon demand entry into the rest of the country. Yamanaka responded forthrightly if futilely, “It is the duty of a politician to smash the allied forces of the hard-headed bureaucrats. If they have any complaint to make, they should present a counter-plan for building a dream prefecture in Okinawa” (Yomiuri, May 11, 1970).

In March 1971, it was announced that a new FTZ would be created in Okinawa after reversion and that enterprises locating in the zone would benefit from tariff-free treatment for imports of raw materials and other inputs and reduction or exemption from a variety of taxes. However, “it is the government’s policy not to approve free advance into this zone by foreign enterprises . . . where foreign currencies can come freely in and out” (Asahi, March 11, 1971).

Today, nearly thirty years later, the free trade zone issue is still not resolved. Okinawans continue to dream of their main island becoming open to free trade, and various schemes have been proposed to Tokyo. In 1997, Prefectural Governor Masahide Ota unveiled a proposal to turn Okinawa into an FTZ by 2005. The plan would provide exemptions from tariffs and consumption taxes for materials imported for use in the zone, and products manufactured in the zone would be imported into Japan duty free. Companies operating in Okinawa would be able to deduct up to 50 percent of their investment from corporate taxes over the years, and their corporate tax rate would be cut from 37.5 percent to 30.0 percent. Okinawan officials said that “the free trade zone would be Okinawa’s first step towards becoming a second Hong Kong or Singapore.” But Japanese bureaucrats have consistently been “strongly opposed to bringing about any kind of ‘one country two systems’ plan.” The Finance Ministry has taken a “cautious” approach to various proposals for Okinawa’s development because they “may destroy Japan’s taxation system” (Mainichi, May 12, 1997). Indeed, the Japanese government has been “hesitant to make any concessions that would loosen its grip on Okinawa” (“The Battle Over Okinawa: Will the Best Ideas Win?” American Chamber of Commerce in Japan Journal, October 1997). Whether an FTZ will be created, and what its extent and features will be, are still being debated, nearly three decades after Yamanaka began advocating the use of FTZs to turn Okinawa into the “dream prefecture” (see also Koji Taira, “Okinawa’s Choice: Independence or Subordination,” in Chalmers Johnson, ed., Okinawa: Cold War Island (Cardiff, CA: JPRI, 1999), pp. 171-85).

Epilogue

May 1997 marked the 25th anniversary of Okinawa’s reversion to Japan. Both the Okinawan prefectural government and the Japanese government decided to forego commemorative events to celebrate the occasion. This reflects the fact that since reversion remarkably little has changed with respect to the central dilemmas confronting the islanders. The U.S. bases are still there and are still a chronic irritant. Neglect of the island by Washington has been replaced by neglect by Tokyo, notwithstanding rhetoric about development. Prime Minister Hashimoto “parroting a line the government has been using with regard to Okinawa for a quarter century,” said on the anniversary of reversion “we will do our utmost to develop the economy there” (Kyodo, May 15, 1997). The post-
reversion era has seen the development of a thriving tourist industry and massive public works spending by the Japanese government, but no significant manufacturing activity has developed. Incorporation into Japan’s economic and administrative system brought better health care and welfare programs but has also meant higher prices for most of life’s basic essentials, such as rice. In August 1998, unemployment was 9.2 percent, more than double Japan’s national average of 4.4 percent. Over half of the unemployed were under the age of 30.

Japanese leaders have indicated that they now welcome foreign investment in Okinawa. However, the recent experience of several Taiwanese investment projects suggests that Japan remains ambivalent, at best. In 1996, an investment affiliate of Taiwan’s governing Kuomintang (KMT) Party decided to make a $200 million investment in Okinawa’s tourist industry, building a five-star hotel and tourist mall. In the future, additional investments in warehousing and shipping facilities could transform Okinawa into a transshipment center for goods from Taiwan to China and to Japan. But in Japan critical voices were raised warning that such projects threatened to accelerate Okinawa’s “departure from the mainland” and, perhaps, its incorporation into some other economic and security block involving Taiwan or China (see, e.g., Sentaku, April 1997). In mid-1997 the KMT called a halt to its investment plans in the Ryukyus “after failing to get a favorable response from the Japanese government.” Among other things, Japan refused to grant landing visas to Taiwanese tourists and would not permit opening of direct airline service between Taipei and Okinawa for a second Taiwanese airline (Taiwan Central News Agency, July 12, 1997).

THOMAS R. HOWELL is a partner in the Washington D.C. law offices of Dewey Ballantine, specializing in international trade. He heads the litigation team that put together Eastman Kodak Company’s market access complaint against Japan and has represented U.S. industries with respect to market access issues in Japan in semiconductors, telecommunications equipment, soda ash, and steel. He is the author of a number of books and studies on trade and industrial policies in Europe and East Asia. © Thomas R. Howell