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Stuart Farson

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Review Essay

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Hansen, James H. *Japanese Intelligence: The Competitive Edge*. Washington, DC: National Intelligence Book Centre Press, 1996.

The English language literature on Japanese intelligence and on that country's involvement in economic espionage is relatively sparse. What exists may be divided into four general categories: a few full-length historical treatments that examine components of the overall system,¹ some comparative studies of foreign intelligence that contrast the structure and functions of Japan's intelligence community with those of other countries,² several historical assessments of intelligence activities during the Second World War from both the Allied³ and Japanese perspectives⁴, and a few recent analyses of Japan's involvement in economic espionage.⁵

Given the paucity of material and the lack of a comprehensive study, the recent addition of James Hansen's *Japanese Intelligence: The Competitive Edge* is, therefore, to be welcomed. However, when serving intelligence officers or former employees of intelligence agencies publish material, a note of caution should be sounded that leads readers to ponder the possible motives involved. In the past, some commentaries have been intended to set the record straight or to respond to critics of intelligence. Similarly, others have offered criticism of existing or former intelligence practices. Sometimes this has been the result of a change of heart. On other occasions, it has been driven by a desire to improve the quality of intelligence. In Hansen's case, there appear to be two principal underlying rationales. The first is to broaden awareness of the threat posed by Japan to US economic interests from his vantage point as a counter-intelligence specialist. The second concerns his belief that the Japanese intelligence system provides a model for the twenty-first century that deserves emulation. In order to assess the value of *Japanese Intelligence: The Competitive Edge*, it is necessary to take account of both recent changes in American intelligence policy and new definitions of national security in that country, and to consider the work within the wider context of the extant literature.

From the end of the Second World War until 1990, Western intelligence agencies focused their attention, arguably to the detriment of other targets, on the Soviet Union and its satellite states. With the end of the Cold War, they have had to justify both their continued existence and their extensive budgets. As part of this justification process they have looked further afield for new threats and opportunities, and have even focused their attention on some that pre-existed the Soviet Union's demise. In the United States where such soul searching has been particularly extensive, economic espionage has moved from being considered a minor problem to one claiming centre stage. Though not singled out

as the only protagonist among the United States's military allies, Japan has been demonized more than most.

This state of affairs did not come about overnight. Over a period of approximately 35 years Japan moved from being a defeated enemy with an economy in ruins, to new-found ally, to being the primary economic threat to the United States. By 1980, this economic miracle had garnered, to the envy of many trading partners, a balance of trade surplus for Japan of some \$75 billion. And it had been done in a country with few natural resources and a population half the size of the United States packed into a land base barely the size of Montana. Given such dramatic economic growth, economists forecasted that its economy would surpass that of the United States and have the highest gross national product by the end of the millennium.⁶ However, the success of Japanese industry at dominating one sector after another led American management specialists initially not to chastize the Japanese for their success but to advocate the emulation of the Japanese corporate model by US companies.⁷

Despite the fact that the US Intelligence Community was otherwise preoccupied in the 1970s and 1980s with military affairs, the significance of Japan's industrial success and the threat posed by economic espionage generally did not go completely unnoticed.⁸ A 1987 Central Intelligence Agency (CIA) report entitled Japan: Foreign Intelligence and Security Services estimated that a full 80 percent of Japan's intelligence efforts were concentrated on economic targets especially those of a technological nature in Western Europe and the United States.⁹ With the end of the Cold War, new attitudes toward Japan came to the fore. From having companies worthy of emulation, the country now came to be seen by some as the new international bogeyman bent on economic domination. This new stance was epitomized by a report entitled Japan: 2000, which was made possible by financial support from the CIA.¹⁰ This saw an inevitable Japanese victory unless there was "some dramatic unified re-assertion of Western intent coupled with an equally dramatic and focused economic resurgence."¹¹ According to the views of the authors, from which the CIA subsequently distanced itself, Japan differed "not just on the margins but represent[ed] an incompatible paradigm incapable and unwilling to change or converge."¹² As such it posed a threat not just to Western capitalism but to the entire value system on which the Western paradigm was based. In language that did little to disguise its use of racial stereotypes, the report described the vast majority of Japanese "as a people . . . driven by pride, nationalism and down-right irrationality" and as "creatures of an ageless, amoral, manipulative and controlling culture."¹³

About the same time the US Intelligence Community undertook a review of American policy toward economic intelligence gathering. This identified a number of philosophical and practical problems associated with sharing the intelligence product broadly with American industry. Not the least of these were the likelihood of breaching anti-trust laws and the dilemma of which companies to define as being truly American in nature.¹⁴ Despite these reservations about US government involvement in industrial espionage, the issue was further examined when the presidency changed hands in the early 1990s. During the confirmation process, James Woolsey, the new Director of the CIA, claimed it had become "the hottest topic in intelligence policy."¹⁵ By 1995, the Clinton

administration had issued new national security strategies that focused on economic security. These saw it as now being an integral component of both the US national interest and national security.¹⁶ A further ramification of this policy shift was the legal requirement now placed on presidents to submit an assessment of foreign economic collection and industrial espionage to Congress on an annual basis. Similarly, it is believed that President Clinton has also issued a classified set of intelligence priorities that emphasize economic espionage.¹⁷

Given recent revelations that the CIA has targeted such allies as France and Japan, many have questioned whether the Agency should be involved in economic intelligence gathering. For some critics the answer regarding American participation is clear cut. For instance, Robert Norton has suggested that in the case of automobile sales "the Big Three don't need spooks trying to infiltrate the Japanese government. The intelligence they need is more basic, such as the insight that you should put the steering wheel on the right-hand side of the car if you expect to sell it in Japan something the US carmakers are only beginning to do."¹⁸

On the other side of the ledger, there is growing evidence from both the private and public sectors that US industries are under threat. In 1996, the American Society for Industrial Security admittedly an interested party completed a study of intellectual property theft and corporate espionage among 325 US corporations.¹⁹ This indicated that reported incidents had increased by 323 percent since 1992. In addition, the data collected supported the US counterintelligence community's views about the countries most actively involved in targeting US interests.²⁰ In its most recent report to Congress, the National Counterintelligence Center has asserted that there are now at least twelve countries that are actively targeting US proprietary economic information and critical technologies. Apparently, these countries "have shown a particular determination, and in most cases a willingness to use illegal and covert means, to collect US economic and technological information."²¹

It may be argued that there are two central questions to be asked of American interpretations of contemporary Japanese intelligence. These are: do they provide a balanced view of the subject? do they add in a significant way to the understanding already provided by the existing intelligence literature?

Hansen's book may be divided into three roughly equal components and a conclusion. The first section summarizes the historical and cultural contexts in which modern Japanese intelligence is rooted. Its purpose is to show that the contemporary intelligence system is either a reflection of, or a reaction to, major historical events or "cultural keys." In developing this argument, the author is more successful at showing how the contemporary system emphasizing economic intelligence represents a discontinuity from the past than connecting the earlier events and keys to it. As he and others have posited, Japanese intelligence during the Second World War was at times naive. The contemporary system attempts not to be. Similarly, the previous incarnation was militaristic while the current one is consistent with the restraints of the new constitution. The historical section is, therefore, of mixed value. While the author makes effective use

of, for example, declassified US documents covering Japanese intelligence during the Second World War, his assessment of the earlier period relies heavily on the work of Richard Deacon. This, as others have noted, contains many unsupported assertions. Given the author's claims to have knowledge of Japanese, it is difficult to understand why Japanese historical scholarship was not considered or incorporated.

The second section comprised of four chapters lays out the structure of contemporary Japanese intelligence. While the latter three chapters describe the crucial involvement of the private sector by concentrating on the role of research institutes and trading companies, the first covers the government structure. It focuses on the role of the Cabinet Office staff, the ministries of International Trade and Industry, Foreign Affairs, and Finance as well as military intelligence. An obvious omission from this section is the role of the Ministry of Justice in providing domestic security and collecting security intelligence. As a result, the national police who fall under its jurisdiction most particularly the Public Security Investigation Bureau are not discussed at all.²² Given the foreign intelligence role that some security intelligence services play particularly in countries where there is no foreign intelligence service this is not insignificant. The picture painted by the author of the Cabinet Research Office is also neither up-to-date nor entirely accurate. Initially formed in 1952, the PRO was renamed the Cabinet Information Research Office (CIRO) as part of the general restructuring of the Cabinet Secretariat that occurred in the mid-1980s with a view to improving the central coordination of government.²³ That review was specifically responsible for improvements in the way intelligence was assessed and distributed. It also led to the purchase of new communications and eavesdropping technologies and to improvements in the committee system for establishing intelligence policy and collection requirements.²⁴ The author claims that "the CRO (sic) is unique in the importance it enjoys for so small an organization." (p. 66) While Americans used to large assessment groups within individual collection agencies may find the CIRO small, those familiar with cabinet government in parliamentary democracies will not. Canada's Privy Council Office, for example, is similar in size to Japan's Cabinet Secretariat and contains similar units that specialize in developing and coordinating security and intelligence policy or provide a centralized intelligence assessment function. The senior official responsible for those organizations is also responsible for overall SIGINT policy and direction. While Australia differs slightly in having a small, specialized assessment unit, the Office of National Assessments, which is detached from its cabinet structure but also reports directly to the prime minister, the United Kingdom has an equally, small centralized system. There are reasons why these bodies are kept small and rely on seconded staff as Michael Herman, a former Secretary to Britain's Joint Intelligence Committee, has recently made clear. On the Cabinet Office Assessment Staff, which provides intelligence for Joint Intelligence Committee (JIC), the body ultimately responsible for directing and coordinating British intelligence, he has observed:

Important as JIC assessments are, the actual resources needed for them are quite small. Talent is what counts, and there is a positive advantage in keeping the numbers low. Since 1968 the Assessments Staff as the kernel of the JIC process has been staffed with a strength of perhaps twenty-five secondees including a strong element from the FCO.²⁵

Other aspects that are underplayed include intelligence sharing arrangements, particularly those with UKUSA Agreement states, and the significance of US bases in Japan for US intelligence, especially regarding SIGINT.²⁶ It was, in fact, long delays in receiving intelligence during the Gulf War, which exposed Japan's heavy reliance on Western-sourced intelligence, that led to the establishment of the new Defence Intelligence Headquarters staffed by some 1600 civilian and military personnel in 1996.²⁷ The section also fails to inform readers how government institutions are controlled and held accountable, whether they are reviewed or not, and if they have statutory mandates. Also, there is no indication of the attitudes currently held by the Japanese themselves toward such government institutions and their functions in the light of past practices and the current non-militarist constitution.

The third major component of the book provides an analysis of how Japanese intelligence currently operates. The central argument of the section is that Japan "had a 1990s-style intelligence system long before the 1990s arrived." (p. 117) Here the author falls into the trap of looking at Japan's existing intelligence system from the perspective of recent shifts in American intelligence policy, i.e., one moving from a primarily military definition of national security to an economic one, not from the consistent needs of Japanese policy makers since the Second World War. Despite the infelicity, this section of Hansen's book is by far the most useful as it stresses certain things that some Cold Warriors have difficulty in understanding about the directions that intelligence should take. One is the singular importance and abundance of open sourced intelligence generally. A second is the significance of so-called "grey information" to strategic decision-making in the economic sphere. Another is the wide distribution of finished intelligence to those who can use it regardless of whether they are members of the private sector or not.²⁸ However, the discussion of business intelligence that follows illustrates the potential dangers that can befall intelligence officers looking for a new *raison d'être*. Though the components of business intelligence (BI) are correctly identified, they are treated as if they have just been discovered by American industry. Though a popular assertion nowadays by former intelligence officers looking for new careers, this is far from the truth. In the 1960s, North America was a Mecca for those who wanted to understand modern marketing techniques. The lessons imparted there focused specifically on such matters as the need to understand the market, the nature of the competition, the search for unique selling propositions and individual product advantages, and, above all, knowing the consumer. In the 1970s and 1980s, the United States became a leader in developing sophisticated methods of collecting and analysing marketing data and incorporating their implications into the corporate strategic planning process. Suggesting, however, that "there are hardly any BI courses in American business schools and the study of BI has hardly gotten off the ground" (p.132) is to reveal an intelligence failure. The function and the teaching of business intelligence is merely conducted under different cover. Many American corporations are among the most skilful in the world at using "market research" and interpreting the data collected strategically. That some groups, like the US automakers discussed above, lost or never fully acquired a consumer-oriented focus until they were forced to do so by their Japanese competitors, says more about the corporate cultures of individual companies, the backgrounds and orientation of

their leadership, and even the significance of export markets, or lack thereof, to them than about American industry per se.

In the final analysis, *Japanese Intelligence: The Competitive Edge* must be said to have its flaws. Scholars will likely find it inadequate, too reliant on the opinions of others, and lacking a sufficiently critical eye on the part of the author. Many may wish that original research could have been used to provide clearer evidence of the degree to which Japanese intelligence helped Japanese companies catch up and leap past their competition. However, for the newcomer it provides a useful introduction to the field that alerts readers to the broader literature. And significantly, it does put important issues on the table.

Stuart Farson

Simon Fraser University

Endnotes

1. See Richard Deacon, *Kempei Tai: A History of the Japanese Secret Service* (New York: Beaufort Books, 1983 and 1990); and Elise Tipton, *The Japanese Police State: The Tokko in Interwar Japan* (Honolulu, HI: University of Hawaii Press, 1990).

2. See Jeffrey T. Richelson, *Foreign Intelligence Organizations* (Cambridge, MA: Ballinger, 1988); and John Vito DeLuca, "Shedding Light on the Rising Sun," *International Journal of Intelligence and Counterintelligence*, (Spring 1988), pp. 1-20

3. See, for example, Ronald Lewin, *The American Magic: Codes Ciphers and the Defeat of Japan* (Harmondsworth, UK: Penguin, 1983); Wesley K. Wark, "In Search of a Suitable Japan: British Naval Intelligence in the Pacific Before the Second World War," *Intelligence and National Security*, 1, no. 2 (May 1986), pp 189-211; Carl Boyd, "The Significance of MAGIC and the Japanese Ambassador to Berlin (I): The Formative Months before Pearl Harbor," *Intelligence and National Security*, 2, no. 1 (January 1987), pp. 150-69; "The Significance of MAGIC and the Japanese Ambassador to Berlin (II): The Crucial Months After Pearl Harbor," *Intelligence and National Security*, 2, no. 2 (April 1987), pp. 302-19; and "The Significance of MAGIC and the Japanese Ambassador to Berlin (III): The Months of Growing Certainty," *Intelligence and National Security*, 3, no. 4 (October 1988), pp. 83-102; Alan J. Stripp, "Breaking Japanese Codes," *Intelligence and National Security*, 2, no. 4 (October 1987), pp. 135-50; Edward J. Drea, "Ultra and the War Against Japan," *Intelligence and National Security*, 3, no. 1 (January 1988), pp. 195-204; John Prados, "US Intelligence and the Japanese Evacuation of Guadalcanal," *Intelligence and National Security*, 10, no. 2 (April 1995), pp. 294-305.

4. See, for example, Michael A. Barnhart, "Japanese Intelligence Before the Second World War: 'Best Case' Analysis," in Ernest R. May, ed., *Knowing Ones Enemies: Intelligence Assessment before the Two World Wars* (Princeton, NJ: Princeton University

Press, 1984), pp. 424-55; J.W. Bennett, W.A. Hobbart and J.B. Spitzer, *Intelligence and Cryptanalytic Activities of the Japanese during World War II* (Laguna Hills, CA: Aegean Park Press, 1986); Pedro Loureiro "The Imperial Navy and Espionage: The Itaru Tachibana Case 1941," *International Journal of Intelligence and Counterintelligence*, 3, no. 1 (Spring 1989), pp.105-21; and Alvin D. Coox, "Flawed Perception and its Effect upon Operational Thinking: The Case of the Japanese Army, 1937-41," *Intelligence and National Security*, 5, no. 2 (April 1990), pp. 239-54.

5. The most extensive treatment is found in Peter Schweizer, *Friendly Spies: How America's Allies are Using Economic Espionage to Steal our Secrets* (New York: Atlantic Monthly Press, 1993), especially chaps 3 and 4. See also DeLuca, "Shedding Light on the Rising Sun"; Jon Sigurdson and Patricia Nelson, "Intelligence Gathering and Japan: The Elusive Role of Grey Intelligence," *International Journal of Intelligence and Counterintelligence*, 5, no. 1 (Spring 1991), pp.17-34; John F. Quinn, "Commercial Intelligence Gathering: Jetro and the Japanese Experience," paper presented at the Fifth National OPSEC Conference, McLean, VA, 2-5 May 1994, available on the Internet at: nsi.org/Library/Intel/japanesep.html (2 June 1997); and Garth Hancock, "US Economic Intelligence Policy and Global Competition," available on the Internet at www.miis.edu/mreview/spring96/hancockart.html (2 June 1997).

6. See Richard Tanner Pascale and Anthony G. Athos, *The Art of Japanese Management: Applications for American Executives* (New York: Warner Books, 1981), p. 23.

7. See, for example, Pascale and Athos, *The Art of Japanese Management*; and William G. Ouchi, *Theory Z: How American Business can meet the Japanese Challenge* (New York: Avon Books, 1981).

8. Richard K. Betts states that: "In FY 1975 over half the community's effort in expenditure terms was devoted to military subjects; only 6 percent was allocated on political and economic concerns. Two thirds of resources were directed toward the Warsaw Pact and NATO. One fourth was allocated to Asia (mostly China)" "American Strategic Intelligence: Politics, Priorities, and Direction," p. 252.

9. See Schweizer, *Friendly Spies*, p. 71.

10. This was not the only report to focus on the threat posed by Japan. See also, for example, Daniel Burstein, *Yen! Japan's New Financial Empire and its Threat to America*, (New York: Fawcett Columbine, 1990).

11. Susumu Awanohara, "Paradigm Paranoia: CIA report warns of Japanese economic domination," *Far Eastern Economic Review*, (June 1991), p. 15.

12. *Ibid.*, p. 15.

13. *Ibid.*, p. 15.

14. See James Adams, *The New Spies: Exploring the New Frontiers of Espionage* (London: Pimlico, 1995), pp. 136-37.
15. Woolsey is quoted in R. Jeffrey Smith, "Administration to consider giving spy data to business," *Washington Post*, 3 February 1993, p. A1.
16. See US Government, *Annual Report to Congress on Foreign Economic Collection and Industrial Espionage*, July 1995, available on the Internet at: www.fas.org/sgp/othergov/indust.html (2 June 1997), p. 9.
17. Information based on an undisclosed source cited by the *Washington Post*. Cited by Rob Norton, "Reality Check: The CIA's Mission Impossible," *Fortune*, (2 October 1995). It is available on the Internet at: pathfinder.com/@s7gj@YEm5gAAQOV5/fortune/magazine/1995/951002/realitycheck.html (2 June 1997), p. 1.
18. See Norton, "Reality Check," p. 2.
19. Cited in US Government, *Annual Report to Congress: Foreign Economic Collection and Industrial Espionage 1996*. It is available on the Internet at: nsi.org/Library/Espionage/nacic96rpt.html (2 June 1997), p. 2 and in Appendix A. It should be noted that reported rates may increase for a variety of reasons and do not necessarily reflect the true magnitude of such activities. The data do, however, give an indication of the extent of the problem.
20. The General Accounting Office tried to conduct a study along similar lines. However, it abandoned it because companies were reluctant to discuss breaches of security with it. See Samuel D. Porteous, "Economic Espionage: Issues Arising from Increased Government Involvement with the Private Sector," *Intelligence and National Security*, 4 (October 1994), pp. 735-52.
21. See US Government, *Annual Report to Congress: Foreign Economic Collection and Industrial Espionage 1996*, p. 3.
22. Domestic security has been discussed by DeLuca in "Shedding Light on the Rising Sun," pp. 1-20. For general works on the police, see David H. Bayley, *Forces of Order: Police Behavior in Japan and the United States* (Berkeley, CA: University of California Press, 1976); Walter Ames, *Police and Community in Japan* (Berkeley, CA: University of California Press, 1981); L. Craig Parker, *The Japanese Police System Today: An American Perspective* (New York: Kodansha, 1984). For an important new study of the Tokko, see Tipton, Japanese Police State.
23. See Kenji Hayao, *The Japanese Prime Minister and Public Policy* (Pittsburgh, PA: University of Pittsburgh Press, 1993), pp. 168-77.
24. See Schweizer, *Friendly Spies*, pp. 86-87.

25. See Michael Herman, "British Intelligence Towards the Millennium: Issues and Opportunities," *London Defence Studies*, no. 38 (February 1997), p. 23.

26. This point is well made by DeLuca, "Shedding Light on the Rising Sun," p. 7.

27. See Gwen Robinson, "Japan intelligence HQ starts up," *Financial Times*, 24 January 1997, p. 6.

28. For further details on how the Japanese Government and its private sector share intelligence, see Sigurdson and Nelson, "Intelligence Gathering and Japan," especially pp. 25-26. For a British view of the need for greater intelligence dissemination within government, see Reginald Hibbert, "Intelligence and Policy," *Intelligence and National Security*, 5, no. 1 (January 1990), pp. 110-28.