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JAPANESE AND AMERICAN CONCEPTS OF INTERDEPENDENCE:

A COMPARATIVE STUDY

by

Ayumi Kurokawa

B.A., Keio University, 1988

THESIS SUBMITTED IN PARTIAL FULFILLMENT OF

THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF ARTS

in the Department

of


Political Science

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SIMON FRASER UNIVERSITY

June, 1990

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ISBN 0-315-69466-1

Canada

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Japanese and American Concepts of
Interdependence: A comparative Study

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ABSTRACT

As United States-Japanese interdependence expanded during the 1980s, economic friction between the two nations also intensified and it was feared that this might develop into an "economic war." Accounting for more than 35% of the world GNP, today's United States-Japanese economic relationship has serious implications for the global economy in such areas as international trade and finance. Thus the resolution of the conflictual aspect of United States-Japanese relations is necessary. This thesis proposes that the two nations have different concepts of interdependence, and this difference is one of the major causes for the economic friction.

The purpose of this thesis is to clarify the difference between the Japanese and the American concepts of interdependence and examine the impact of the difference on United States-Japanese relations. Chapters 1 and 2 explore the two concepts of interdependence by reviewing the postwar foreign relations surrounding the United States and Japan. Chapter 3 compares the two concepts and clarifies the difference between them. Chapter 4 discusses, first, United States and Japanese foreign assistance policies, second, the Structural Impediment Initiative talks of 1989 and 1990; and finally the argument of so-called revisionism, a controversial argument evolved in the American mass media about how to handle problems with Japan.

This thesis submits that Japan interpreted interdependence as an opportunity to be more independent from external constraints, whereas the United States viewed it as a political-economic instrument to retain its power to influence others. In the conclusion, it is argued that these respective concepts of interdependence may have to change in accordance with changes in the two nations' power relations. The asymmetry in the early postwar United States-Japanese relations was highly in favor of the United States. Over the last decade, however, relationships between the two nations have been becoming more symmetric in some areas, though the two nations may not necessarily benefit equally from them. Japan's growing importance to the international political economy must be accompanied by an increase in its commitment to international responsibilities. Thus Japan can no longer avoid its involvement in international affairs. The United States on its part must recognize the current condition where, despite its continuing preeminence in the international community, power must be shared by those capable and willing.

DEDICATION

For my grandmother and my parents.

ACKNOWLEDGEMENT

I wish to extend my deepest gratitude to my senior supervisor, Dr. F.Q. Quo, for his guidance and constant support.

I have received inestimable benefit from the comments and suggestions of my second supervisor, Dr. Theodore Cohn.

Many thanks to all the faculty staff and graduate students of the Department of Political Science for their friendly advice. Special thanks to Jackie Kenny for her friendly advice and kindly taking her precious time for proofreading my thesis. Finally, good luck to my Japanese colleague, Akira Ohki, who will soon be pursuing his Doctor's degree.

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INTRODUCTION

As the United States, which has significant global economic and political influence, becomes increasingly dependent on Japanese trade and investment to maintain the vitality of its economy and to finance its government budgets, the development of United States-Japanese relations is no longer considered to be a solely bilateral issue. Now that Japan has the capability to play an important role in international relations, the entire community of nations is watching the direction into which United States-Japanese interdependence is going to develop.

Interdependence is frequently discussed by statesmen and international businessmen of Japan and the United States in terms of the enormity of their nations' mutual trade and capital transactions. They are often inclined to view the size of these transactions as evidence of each country's need of the other and they automatically assume that the two nations are highly interdependent. Some observers and participants even argue that interdependence has opened the door to a borderless economy. This conclusion, however, needs reassessing. The term interdependence has been so integrated into our everyday language that it seems to be taken for granted that the United States and Japan perceive interdependence in the same way. Indeed, because of the overall cooperative and friendly United States-Japanese relations, the serious implications of difference in their

respective understandings of the "interdependence" concept has not been adequately examined.

Interdependence can lead to, conflict as well as cooperation. As the interconnections between numerous interests of the United States and Japan increased, the competition and conflict of these interests has intensified as well. The governments of the United States and Japan are, therefore, compelled to take action to defend the interests in their countries. Moreover, the United States-Japanese economic friction has become even more difficult to deal with because of the complexity of the trade and investment ties between the two countries, and the relationship of the U.S. bilateral trade deficit with Japan to Japan's own domestic economic policy.

This thesis presumes that the belated realization of difference between their respective concepts of interdependence has been one of the major causes of greater United States-Japanese economic friction. Japan's growing awareness of interdependence with the United States and other nations has given it a strong impetus to seek independence from external constraints. Conversely, the United States interprets interdependence as being the strong link with its allies and friends, and the asymmetry in their power relations is one of the strong factors that enables the United States to obtain its desired outcomes in political-economic negotiations. Japan believes that

interdependence enables it to have greater autonomy in its policy making, while the United States believes that interdependence justifies interference in other nations' domestic affairs, if necessary.

, In order to prove this postulate, Chapters 1 and 2 elaborate on the Japanese and American concepts of interdependence in light of the historical background of U.S.-Japanese relations. We base the analyses mainly upon government documents and public speeches of heads of governments or their deputies so that there is consistency in the argument. Chapter 3 attempts to clarify the difference between the two concepts, and Chapter 4 examines the actual effects of the difference on U.S.-Japanese relations. Finally, Chapter 5 concludes the arguments of the previous chapters and develops them into a future prospect of U.S.-Japanese interdependence.

CHAPTER ONE.
THE JAPANESE CONCEPT OF INTERDEPENDENCE

From 1957, when the Japanese Ministry of Foreign Affairs compiled its first annual report, until 1964, United States-Japanese relations were often described as "very close and friendly." In 1965, the word "interdependence" made its first appearance in the Blue Book of Foreign Affairs.

We have entered a new era in which [Japan and the U.S.] share responsibility and make positive contributions The interdependence between Japan and the U.S. in terms of economy and trade is extremely deep. Japan's trade with the U.S. accounts for 30% of its total foreign trade, and Japan is the second biggest customer of the U.S., particularly its No.1 customer of agricultural products.

In such an intimate economic relationship, it is a matter of course that the number of economic agenda and conflicts of different interests is not small. The Japanese government, however, has been making every effort to balance the interests of the two nations without harming the close cooperative relationship.¹

In the context the word was used, Japan merely wanted to point out that the two states were economically interdependent because of their very close trade relationship. By then, Japan had become the second largest trading partner of the United States next only to Canada, and the largest overseas partner. The 1965 figures show that while 30% of Japan's trade was engaged with the United States, the volume constituted less than 10% (7.5% of the total exports and 9% of the total imports) of U.S. foreign trade. Thus, the word interdependence was used only in

1 Waga Gaiko no Kinkyō (Blue Book of Japan's Foreign Affairs) of 1965 (The Ministry of Foreign Affairs), p.25.
A Blue Book is an annual report of Japanese diplomatic activities and foreign relations.

reference to a rather asymmetrical trading relationship between the two nations.

The second appearance was made in the joint communique of President Nixon and Prime Minister Sato in January 1972.

The Prime Minister and President, recalling the more than one hundred years of association between the two countries, emphasized the importance of Japan-U.S. relations being founded on mutual trust and interdependence.²

"Interdependence" in this communique has a broader connotation than the usage in 1965, as the sentence that follows indicates, "not only in terms of trade, but also in political, security, cultural, and educational fields."³ Yet, it still refers to the two nations' bilateral relationship.

In contrast to these two usages, "interdependence" in its third appearance in 1974 has a quite different connotation.

The relations not only between advanced nations but also between advanced nations and developing countries have been deeply interwoven into a fabric of a deep and broad interdependence.... The question of the moment is how to solve the conflict of mutual interests among nations through cooperation and concessions, and establish a new international order for smooth development of these basic interdependent relations.⁴

The quotation above indicates that Japan revised its interpretation of interdependence after the Oil Crisis of 1973. It refers to multilateral relationships with many other countries in the world that are important to Japan.

2 "Foreign Policy," (a translated abstract of the Blue Book) White Papers of Japan 1972-73: annual abstract of official report and statistics of the Japanese government (Japan Institute of International Affairs), p.68.

3 Ibid.

4 White Papers of Japan 1974-75, p.72.

This chapter elaborates on these different interpretations of interdependence by reviewing the historical background of Japanese postwar foreign relations. We explain Japan's legal independence from the United States occupation, the transition from dependence on the United States to interdependence, and finally the internationalization of Japan in the 1970s and 1980s.

I. Japan's Independence and its Limits

For post-war Japan, to regain national independence simply meant to depart from its overall dependence on the United States.

Although the Allied occupation of Japan began on September 2, 1945, Japan was in fact entrusted to the United States for virtually an exclusive occupation. For the United States, the original goal was to recreate Japan as a potential good friend in the Far East by carrying out a variety of reforms that were designed to democratize its political, socioeconomic and educational systems.

The major task of the postwar Japanese government was, from the outset, to put an end to the occupation and regain sovereignty and independence. The Ministry of Foreign Affairs established a research committee as early as November 1945 to formulate a policy toward a peace treaty, and tried as much as possible to keep in frequent contact

with the United States, through which Japan wished to convey its wish to the Allies.⁵ In the meantime, the United States was also considering the withdrawal of its occupation forces from Japan. General Douglas McArthur argued that the occupation should not continue any longer than three years. He suggested that a prolonged occupation would probably cause deterioration of the military forces' discipline, which in turn would arouse further resentment in the population towards the occupation forces.⁶

Japan's concern over the peace treaty was, first, with the scope of the treaty; that is, should it be signed with all of Japan's former belligerent countries, or would it be wise to exclude the Communist powers. Second, there was the question of Japan's rearmament.

In a sense, the solution to these concerns came with the outbreak of the Korean War in 1950. Idealists in Japan generally believed in an all-party peace treaty, whereas the realists maintained that it was in Japan's interests to cooperate with the United States and Great Britain. When the Korean War broke out, the antagonism between the Soviet Union and the United States, the two superpowers backing the war, was seen by many as excluding the possibility of signing a peace treaty with both blocs. At the same time, "Tokuju," the special demands arising from the United Nations forces in Korea, revived the Japanese economy. Such

⁵ Yu Ikei, Nihon Gaikoshi Gaisetsu (Tokyo: Keio Press, 1972), p.238.

⁶ Ibid., p.240.

economic gains from supporting the Americans and British led many in Japan to favor the realist view.

Regarding the issue of rearmament, Japan wanted the American forces to continue to provide military protection rather than having to rearm itself. Besides, it was economically not feasible for Japan to form adequate armed forces for its own defense at that time. The United States, on the other hand, did not intend to ensure Japan's security indefinitely. In his New Year Message in 1950, General McArthur, who had previously been against Japan's rearmament, gave a new interpretation to Article 9 of Japan's constitution, the stipulation in which Japan renounced its right to rearmament. He said that the stipulation did not necessarily deny Japan's right to self defense in case of aggression by another country. Then, when the Korean War broke out, he compellingly ordered Japan to form a defense force, which would fill the gap left by the American military forces that had left as the United Nations forces in Korea. Nonetheless, such a defense force was certainly not sufficient to protect Japan from a potential enemy, which was assumed to be the neighboring Communist powers. The United States at last announced, as a solution to this, that it was prepared to retain its military forces in Japan even after the termination of the occupation, if Japan so wished.

In this way, the unwanted rearmament of Japan was inaugurated, and a security arrangement was to be instituted

between Japan and the United States to supplement Japanese defense forces. Such a security arrangement, many dissidents from the Communist and Socialist parties in Japan protested, seemed to undermine Japan's desire for real independence. Nevertheless, Japan finally signed the Peace Treaty with 49 countries in San Francisco in 1951. Japan thus regained independence, at least technically, and became a member of the Western bloc led by the United States.

Revision of the Security Treaty

Japan's sense of inferiority as a dependent nation rather than an independent one remained even after 1951.

If independence means "freedom from dependence on economic, political, and military domination of others, and being self-sufficient,"⁷ it would be hard to consider the Japan of those days as an independent nation, given the size and range of support provided by the United States.

In the late 1950s when the Japanese economy was growing at a steady pace, and its Self Defense Forces were formed, the one-sided and unequal nature of the security arrangement with the United States began to stimulate some Japanese nationalists to think about the revision of the treaty.

Their particular concerns were:

1. While Japan had an obligation to approve the stationing of American forces, the U.S. had no obligation to ensure Japan's security;

⁷ Roger Scruton, A Dictionary of Political Thought (London: the MacMillan Press, 1982), p.217.

2. There was no articulate specification of the termination date, which was left to Washington's discretion;
3. There was no specification of the scope and the purpose of the activities conducted by the American forces in Japan;
4. The United States had the right, at the Japanese government's request, to intervene in domestic disturbances in Japan. It is very rare that an independent nation would approve of this provision; and
5. Japan was obliged to consult with the U.S. and obtain its consent before approving any stationing, exercise, or passage of a third nation's military force.

The United States at first responded to Japan's claims by acutely pointing out that the Japanese constitution would prohibit the idea of an equal and cooperative security arrangement, since a substantial rearmament of Japan would be necessary and inevitable.

Meanwhile, the Conservative Party government and the steady economic recovery in Japan were contributing to political stability. On the supposition that these factors would enable the reinforcement and modernization of Japan's defense forces, the United States became more flexible about the proposed revision of the security arrangement. The revised version of the arrangement, the Treaty of Mutual Cooperation and Security, was finally signed in 1960.

The revised treaty reflected Japan's demand for more mutuality and equality. It is, however, often criticized for being a revision that was actually a mere exchange of the obligation of the United States to assist Japan's defense and the obligation of Japan to provide the military facilities not only for its own security but also, with

consultation in advance, for the security of other areas in the Far East.

One fact remained unchanged; unless it decided to develop its own nuclear weapon capacity or full conventional capability for self defense, Japan was still dependent on American protection. This being the reality, Japan was caught between its eagerness to be independent from the United States and its unwillingness to possess strong armed forces.

Economic Dependence on the United States

When Japan regained independence after the Second World War, economic prosperity was the most important goal to pursue. Fearing the potential negative reaction among Asian nations that were apprehensive of a revival of Japanese militarism, Japan attempted to downplay security matters. Instead, it hoped to make a peaceful contribution through its economic activities in the Asian region.

Given the indigenous scarcity of natural resources and raw materials and the destruction of its economic infrastructure at the end of the war, it was not easy for Japan to accomplish economic prosperity quickly, nor could this be achieved solely within the nation's borders. Japan had to trade in order to survive, and trade requires partners. In the early 1950s there were partners who would supply Japan with vital natural resources and raw materials, or advanced technology and capital investments, and partners

who would buy Japanese products produced from these imported raw materials. Japan had two major partners: Asian nations, which had special relationships with it historically, culturally, and geographically; and the United States, which dominated up to 50% of the global economic activities at that time as a result of the Second World War.

In 1955, Japan's exports to Asia accounted for 40% of the total, and imports for 31%. Exports to the United States accounted for 22.3%, and imports for 31.2%. Together the United States and Asia accounted for more than half of Japan's entire trade. The trading partners in Asia were important suppliers of natural resources and raw materials, but their buying ability was limited because of their economic difficulties. The United States, on the other hand, provided Japan with economic aid, investment, high technology and agricultural products, and at the same time bought a considerable portion of Japanese products, whose quality was yet to be improved in order to meet the standards of advanced nations. In this way, the United States played a triple role of supplier, customer, and economic aid provider for Japan.

II. From Dependence to Interdependence

Japan's confidence as an advanced industrial nation was beginning to show in the early 1960s. During the beginning of its economic recovery, the main manufactured products

that Japan exported were labor-intensive consumption goods such as toys, rubber sandals, and textiles. "Made in Japan" in those days was associated with inferior quality. By the end of the 1950s, Japan's effort to improve the quality of its products proved to be fruitful. For example, its precision instrument products like cameras, radios, and sewing machines found increasing market acceptance in Canada.⁸ By 1963, Japan had rapidly developed to become the third largest economy in the Western bloc following the United States and West Germany. Such success motivated Japan to show strong interest in becoming a member of the "club of rich advanced nations," which includes the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF). The following quotations are typical examples of such interest.

The importance of Japan's membership to OECD is that OECD can be an organization that is truly representative of the prosperity of the free world only by coopting Japan, a nation with more than \$50 billion GNP annually and a high economic growth.

As a nation heavily dependent on trade, it is of extreme importance for Japan to participate in the discussion at the conference of OECD to induce more consideration to the interest of Japan.⁹

The year 1964 is often described as a glorious year for Japan. It finally obtained memberships, with the United States as its main sponsor, in the two major international organizations, the OECD and Article 8 status of the IMF;

8 Blue Book 1960, p.180.

9 Blue Book 1963, pp.235-236.

Japan had completed two consecutive long-range economic plans with satisfactory results; and further international recognition was achieved by the Olympic Games which were held in Tokyo in the same year.

Japan's confidence was followed by its determination to behave and act as an "internationally cooperative and responsible nation, commensurate with its position."¹⁰ This determination was derived from two major changes in the international environment. Firstly, the American balance-of-payment deficit due to its military expenditure and generous investments overseas had been eroding its predominant position in the international economy. For this reason, the credibility of the dollar became a grave concern of every nation that used to have full confidence in the soundness of the U.S. economy as the principal engine of world economic growth, and subsequently other advanced nations found it necessary to be more cautious.

Secondly, multipolarization of international relations appeared to have replaced bipolarism. France, under the initiative of General Charles De Gaulle, began to contend that each nation should pursue its own policy based on its national interest. It independently set out to improve its relationship with the Soviet Union and officially recognized the People's Republic of China in 1964. France also disagreed with the American plan of integrating the allies, and, having become a nuclear state in 1960, seceded from the

10 Blue Book 1964, p.28.

military aspects of the North Atlantic Treaty Organization (NATO) in 1966. The European Community was about to be formed, potentially creating as huge an economic entity as the United States. As for developing countries, seventy-five nations united to act in solidarity against the advanced industrial nations in pursuit of recreating the existing international order. In other parts of the world, as U.S. President Eisenhower and the Soviet First Secretary Khrushchev met at Camp David in 1959 in an effort to pave a way to detente, China began to pursue its own Communist policy independent of the Soviet Union. China became a nuclear state despite opposition of the Soviets, who wanted China to remain dependent on their nuclear power. As a result, economic cooperation between the Soviets and China declined.¹¹

The perception of these changes in the international environment led Japan to reconsider its position. Japan saw the relationships between the United States and its Western allies as "at the end of the era of American assistance," and the beginning of "a new era where each nation should share the responsibility in contributing to the welfare of the world."¹² Under these circumstances, Japan began to place more emphasis on cooperation and consultation with other nations, but the very basic policy of maintaining and

11 In Blue Book 1966, Japan showed its profound concern over the increasing antagonism between China and the Soviet Union, which appeared to Japan more like a cold war.

12 Blue Book 1965, p.23.

promoting good relationships with the United States and Asia remained a top priority.

Another important tendency emerging was politicization of economic issues. As an American scholar, Robert Gilpin, explains, governments by their nature want to control the process of their economic growth and make economic activities serve the perceived interest of the state. However, the rapid advancement of high technology and communication facilitated economic and social activities across the continents and oceans in a variety of ways, making it possible for non-governmental actors to escape political control and jump over the national boundaries.¹³ Moreover, in a world where the United States became more self-centered, international economic issues like trade barriers began to reflect each nation's political concern over its national interest, and made it more difficult to deal with economic and political issues separately.

For a nation like Japan emerging as an economic power, but not a political-military power, these trends of multipolarization and politicization of economic issues were of primary importance to its national interest. It was thus important for Japan not to be "left behind these trends" and to take "a realistic and unprejudiced stance in order to determine what its basic national interest was."¹⁴

¹³ Robert Gilpin, The Political Economy of International Relations (New Jersey: Princeton University Press, 1987), p.11.

¹⁴ White Papers of Japan 1971-72, p.34.

The most frequently expressed concern of Japan is the fear of losing its supply of natural resources and other vital primary products, and the sense of being a trade-dependent nation. Japan was beginning to realize that it was going to have to deal with these concerns in a "more complicated international environment, in which numerous countries exert varying degrees of influence on one another."¹⁵ Yet, there was no specific policy proposed for the new era other than expanding intercourse with other nations beyond Asia and the United States.

Japan confirmed its departure from dependence on the United States for the first time, when the United States unilaterally announced its new economic policy designed by the Nixon administration. International trade competition and conflict of interests among nations became problematic during the 1960s, as Western Europe and Japan, relieved by the prospect of United States-Soviet detente, began to pursue their own national interests more uninhibitedly and sometimes against the interests of the United States. Finally, being deficit-ridden in both balance of payments and trade, the United States had to give priority to its own national economy and mounting unemployment. The new U.S. policy, made without any prior consultation with other advanced nations, suspended the convertibility of the dollar into gold, and imposed a 10% surcharge on imports.

¹⁵ Ibid., p.35.

The significance of this surprise manifesto was that the United States used its political power to change the existing international monetary and economic system. The United States presumed that the European and Japanese currencies would have to be revalued as an inevitable consequence of its new policy, thus devaluing the U.S. dollar. The devaluation of the U.S. dollar would then rectify what the United States considered unfair exchange rates favoring the competitiveness of foreign products.

Furthermore, no prior consultation took place although these measures would have a serious effect on other nations' economies. The United States was able to carry out the new policy unilaterally because of its preeminent political power relative to other advanced industrial nations, which had few choices but to adjust themselves accordingly. Nonetheless, for Japan, the Nixon Shock appeared as a euphemistic way for the United States to admit the demise of its unquestionable control over the international economy. The following quotation suggests the Japanese interpretation of, and response to, the decline of American supremacy that the Nixon doctrine indicated.

On Japan's part, it is indispensable that it abandon such sentimental factors as dependence and antagonism [towards the U.S.], and associate with an attitude of pride and responsibility as a truly cooperative partner.¹⁶

This Japanese interpretation of the changes in U.S. foreign economic policy is important to note as one of the major

¹⁶ Ibid., p.36.

elements that contributed to a shift in the Japanese concept of interdependence before the first Oil Crisis.

The First Oil Crisis and Recession in 1974-1975

The effect of the Oil Crisis in 1973 on advanced nations and non-oil-producing developing countries was so grave that it is usually being referred to in all kinds of discussion of the international economy of the period. The oil crisis was a turning point for Japan in terms of its concept of interdependence. It taught Japan that the United States was not the only nation on which the weight of Japanese foreign policy should be placed. The process of this lesson may be analyzed in two ways, the immediate effect and secondary effect.

- The Immediate Effect -

In October 1973, Egypt and Syria attempted to retrieve their territories previously occupied by Israel, which developed into the Fourth War in the Middle East. The Organization of Arab Petroleum Exporting Countries (OAPEC) was formed to express the Arab political unity, and used an oil embargo against the Western advanced nations, particularly the United States and the Netherlands, in order to induce a pro-Arab policy. Other members of the Organization of Petroleum Exporting Countries (OPEC) soon cooperated with the Arab countries and took full advantage

of the economic dependence of many advanced nations on their oil.

Among the oil-importing advanced nations, Japan was one of those most severely affected by the oil shortage problem. It is a well-known fact that Japan has to import almost all of its oil, and 88% of its oil came from the OPEC countries in 1973. The impact of the oil crisis was, therefore, tremendous in Japan. For example, consumer prices increased by 24.5% in just one year between 1973 and 1974, compared to 11.7% in the previous year, which was the highest among major advanced nations.¹⁷ Although we cannot conclude from this limited evidence that Japan suffered the most, the immediate effect upon the nation was a response near to panic.

When the oil embargo was announced, Japan faced a critical decision, which had to be made with an independent consideration of its national interest. In spite of the huge amount of its oil purchases from the OPEC countries, Japan was classified as an unfriendly country of the Arabs. Unlike the United States, which was a large capital investor in the Middle East and had an enormous influence over Israel, or the case of Great Britain, which had a strong foothold in the region since the colonial period, Japan had neither bargaining power nor cultural ties which could have facilitated more understanding with the Arab countries. The

¹⁷ Masataka Kohsaka, Shunpei Kumon, Kokusai Seijikeizai no Kisoichishiki (Tokyo: Yuhikaku Books, 1988), p.176.

U.S. Secretary of State Kissinger had reportedly asked Japan not to take any independent action, but Japan soon decided to take a pro-Arab stance, and dispatched the Deputy Prime Minister Miki to eight Middle Eastern countries. There, he promised more economic and technological cooperation in order to have the oil supply resumed. For instance, Egypt received \$280 million in assistance for the reconstruction of the Suez Canal; and Saudi Arabia obtained several major assistance grants for such public works as an oil refinery and railway construction.

The relationships between energy-importing advanced nations and energy-producing developing countries had never been so crucial before. Advanced nations as a whole had now become more and more dependent on oil as the primary energy for their economic growth. The share of oil among the total primary energy resources in the major advanced industrial nations had soared from 39% in 1960 up to 53% in the year of the first oil crisis.¹⁸ Half of the oil demand was produced in the OPEC countries in the latter year, which rendered the oil-importing advanced nations vulnerable to the oil shortage and the subsequent changes in the oil price. Even when the immediate shortage problem was solved, as Japan, France and Great Britain adopted a pro-Arab policy, they remained anxious over the on-going conflict in the Middle East. The reduction of oil production triggered a soaring

¹⁸ Ibid., p.177.

of the oil price from \$2.5/barrel in late 1972 to \$11.7/barrel in the spring of 1974, five times higher. Both advanced and developing countries learned from the Oil Crisis that economic products could be converted into political products and be used as a means to exert influence on vulnerable countries like Japan.

In addition to the diplomatic lesson, Japan's self-consciousness as a small country with few natural resources and its vulnerability to disruption of energy supplies were brought home. For a resource-poor country like Japan, energy conservation and development of alternative energy sources, which take time and endurance, were not enough to insure its future resource acquisition. While continuing to strengthen ties with its resource-supplying trading partners, Japan dealt with its energy dependence problem by spreading its concentrated vulnerability to more countries outside of the Middle East region. For instance, Japan began to import more oil from Mexico, Indonesia, and the Communist and Socialist countries, which were also major suppliers of mineral resources to Japan.

- The Secondary Effect -

The first Oil Crisis triggered an economic recession unprecedented in the postwar era. As a result, the principle of Japan's foreign policy shifted in 1974 from following the United States to reaching consensus with other

advanced nations harmoniously, and it remained the key basis for the conduct of its diplomacy in 1980s.

The significance of this recession to Japan was reflected in the increased frequency of high-level negotiations and conferences in which Japan took part. The initiation of economic summit meetings is symbolic in this respect. International economic issues like trade, exchange rates, inflation, and problems of protectionism were profound among advanced industrial nations to such a degree that they had to be dealt with on a high-level political basis and controlled in a multilaterally cooperative manner. It seemed the role of government in the management and control of the international economy had expanded and hence joint governmental operation and control were necessary. Nevertheless, cooperation among advanced nations was accompanied by conflicts and frictions because of each country's domestic problems and interests. Since a government usually gives priority to its domestic interests, the international cooperation often required concessions and compromises.

A nation's bargaining power counts heavily in such concessions and compromises. It is very important, in terms of interdependence, for a nation to know how its moves can affect other nations' moves and vice versa. As for Japan, however, little is discussed in the Blue Books about the political or economic strength that it could use

in the international bargaining process. Interdependence was simply described as the following:

Because of the increasing interdependent relationships among nations and the complexity of their nations, a country is influenced by an incident in which it is not directly concerned.¹⁹

Japan's concept of interdependence was passive; an interdependent world was one where Japan was influenced by other nations' moves. The absence of attention to the impact of its own moves on other countries provides evidence for the passivity characteristic.

The next section discusses the internationalization of Japan's economy. This internationalization led to a conspicuous transfer of Japanese manufacturing operation and financial institutions to the United States and other nations, increasing their sensitivity to Japanese foreign economic policy.

III. Internationalization and Interdependence

Internationalization is a goal that Japan has been pursuing particularly since 1985. It would not be an exaggeration to say that the internationalization of Japan is the product of a series of external demands on Japan for changes in its system and behavior, rather than a transition to a mature economy. Internationalization has resulted from

¹⁹ White Papers of Japan 1979-1980, p.15.

Japan's economic success and the idiosyncratic aspects of its socioeconomic system. As an American writer puts it:

If Japan had not experienced such dramatic economic achievement, American decision-makers would not have been particularly concerned about Japan's domestic practices. If Japan's domestic political economy was like that of the U.S., the procedural changes associated with diffuse reciprocity, which have been at the core of American initiatives, would have had more impact.²⁰

The internationalization of Japan has three main aspects. The first aspect is its outward economic expansion. The second aspect is the subsequent opening of what many non-Japanese considered the closed Japanese market. Lastly, the third aspect is Japan's effort to contribute to world peace and stability by non-military means.

The Globalization of the Japanese Economy

A nation's trade surplus should normally be a matter of celebration for the nation concerned. When it is excessively large, however, it can be a source of trouble for a nation's foreign economic policy, and this has been the case for Japan since the late 1970s. The worldwide economic stagnation at the turn of the decade stimulated a protectionist atmosphere in the United States and Western Europe in order to support their domestic industries from the effects of foreign competition. Japan, whose economy was visibly more expansive than other advanced nations except West Germany, instantly became a major target of this

²⁰ Stephen Krasner, "Trade Conflicts and Common Defense: the U.S. and Japan," Political Science Quarterly Vol.101, No.5, (1986), p.803.

protectionist mentality. The United States, because of its salient trade deficit with Japan, has been most aggressive in pressuring Japan to reduce its trade surplus in the name of free trade and (from the Japanese point of view) in an effort to divert attention from the mismanagement of U.S. macroeconomic policy.

Small changes in the pattern of Japanese foreign economic activities had already been taking place since the early 1970s, notably after the first Oil Crisis. The salient protectionist waves noted above motivated or necessitated many Japanese to transform their economic behavior into one that would enable them to continue to make profits and appease foreign pressures at the same time. This transformation involved the globalization of the Japanese economy.

The globalization of Japan's economy resulted from the desire of many Japanese corporations to overcome the severity of the stagnant international economy of this period. It is argued that international production and finance are the two major forces that have integrated the modern world economy.²¹ The globalization of production and finance of the Japanese corporations made the nation's economy one of the most active in the world.

²¹ The Political Economy of International Relations, op.cit., chapters 6 and 8.

Just as there are phases of economic development, there are phases in the pattern of investment, which is generally directed to the most profitable industries and places where the returns are high and secure, and there are few restrictions or regulations.²² In the case of Japan, more than 70% of its foreign direct investments were destined for Latin America and Asia during the 1960s and early 1970s. The primary purpose was either to secure a stable supply of natural resources needed for Japan's economic growth, or to take advantage of lower labor cost with relatively high productivity, especially in Asia, or both.²³ By the end of the 1970s, however, many Japanese were more concerned about rising protectionism in the United States and Western Europe in the wake of the worldwide economic recession than with the energy supply problem. For the latter problem, Japan had already initiated a successful energy conservation program. A number of large- and medium-sized Japanese companies were either forced or preferred to transfer their production to these advanced nations in order to forestall protectionism. Western European countries even demanded that Japan and other countries establish local manufacturing instead of exporting their products. For instance, Nissan began to produce automobiles in West Germany, and Matsushita Electric Company began to produce its VCRs (video cassette

22 For example, it is said that New York currently satisfies all these three conditions for investments.

23 As the wage standard in Japan rose, it lost its comparative advantage in labor costs.

recorders) in Spain and France.²⁴ The globalization of production was also accelerated by the appreciation of the yen and political instabilities in Asia and the Middle East. An increasing number of Japanese foreign direct investments in production were, therefore, diverted to advanced nations, making the typical image of Japan exporting manufactured goods from home plants somewhat obsolete.

United States-Japanese Economic Relations

The economic relationship between Japan and the United States gained increasing complicacy due to several new features in their respective economic activities. Firstly, the economic recession during the early 1980s induced many corporations in the United States to rationalize through international joint ventures and M&As, mergers and acquisitions, or by overseas procurements such as those of automobile parts and electronic appliance components. Many of the contracts were made with Japanese companies.²⁵ Secondly, as a natural consequence of the increase in import and export transactions, the number of financial subsidiaries of Japanese corporations increased sharply. The increase was notable after the liberalization of the

24 The pioneer of globalization of production is Honda, which started its production of motorbikes in Belgium in 1962. Two years later, YKK began manufacturing zippers in the Netherlands.

25 According to Gilpin, 40% of automobile components in the U.S. came from Japan in the mid-1980s. In his opinion, the U.S. has become "an assembler of foreign components." Political Economy of International Relations, op.cit., pp.255-57.

Japanese capital market, which began in 1979 and has been particularly significant after 1985. Out of 104 subsidiaries of Japanese corporations established as of May 1987, excluding financial institutions like banks, 85 were established after 1985, and 26 of them were in the United States. The motives are primarily the local financial demands, improvement in the balance sheet of the parent company, and avoidance of foreign exchange risks.²⁶

In short, for many Japanese corporations, foreign direct investment is a strategy for market expansion without exporting their products; it is the export of corporations themselves. The local establishment of sales agencies, followed by that of production and financial facilities, even their subcontracting firms, are indicative of the nature of the globalization of the Japanese economy.

Thirdly, Japan became an important financial backer of the United States, which has now become a huge debtor nation. In 1983, the United States was a creditor nation of \$150 billion, and no one suspected that it would ever be a debtor nation. In those years, the Reagan administration was pursuing its so-called Reaganomics in an effort to solve its trade and budgetary deficits, and had an absolute faith in it. Tax cuts and greater government expenditures were expected to stimulate domestic demand in the United States, which would, as a result, enable the government to earn more tax revenues and rectify its budgetary deficit. These

26. Japan Economic Studies Vol.10, No.4, Summer 1989, p.82.

measures were also expected to stimulate domestic production, which would create more jobs and promote exports. In practice, there was a miscalculation. The government spent extravagantly, particularly on defense, which during this period was said to be the largest expenditure in the postwar period; the domestic demand increased as expected, but this resulted in increased imports due to the unexpectedly low rate of investment in production. Between 1982 and 1985, when capital investment increased by 25%, investment in manufacturing equipment rose slightly by 8.5%, and investment in manufacturing facilities such as factories even declined. The United States was thus more and more dependent on imports to meet the increase in its domestic demand, and on foreign capital to finance its budget, swelling the deficit in its capital balance. By the end of 1985, the United States had become the world's largest debtor nation.

On the other hand, Japan replaced West Germany as the key supporter of the U.S. economy by holding the dollar and buying U.S. Treasury bonds, as West Germany became less willing to do so, though the latter is still an important financial supporter of the United States. Accordingly, a great deal of Japan's trade surplus with the United States returned in the purchase of American securities. The Japanese government encouraged companies to invest their surpluses overseas where protectionism could easily rise

against Japan.²⁷ The introduction of such incentives as investment credits and the high interest rate in the United States attracted Japanese investment, rapidly increasing the capital outflow from Japan into the United States in the latter half of 1985. In 1988, Japan's trade surplus with the United States was \$52.488 billion, but at the same time \$59.260 billion went back to the United States as long-term capital investments, including the \$36.214 billion purchase of American securities and \$18.969 billion of direct investments.

In spite of the serious deficits in trade, government budget and international payments, attractive opportunities in the U.S. market for profits and other factors such as political stability enable the U.S. government to continue borrowing foreign capital. It seems to imply that the investor countries still count on the future and leadership role of the U.S. economy. Presumably, otherwise they would not have been investing in the United States. More importantly, however, by investing in the United States, other nations can sustain the U.S. economy, which in return is so vital to their own national interests and the health of the world economy. The collapse of the American world-export-absorbing power would have a profoundly deflationary effect on the entire world economy. In this regard, Japan is

27 The increase in Japan's capital outflow is incredible. It was \$17.7 billion in 1983, jumped to \$64.5 billion in 1985, and soared to \$131.5 billion in 1986.

undoubtedly one of the nations that would be immeasurably affected, and therefore has a significant reason for sustaining a healthy U.S. economy. More than 90% of the account of Japan's foreign transactions is settled in U.S. dollars. Trade with the United States currently accounts for about 35% of its foreign trade transactions. Furthermore, as the Blue Book puts it:

Overall U.S.-Japanese relations should not be harmed by mere economic conflicts between the two nations. It is not a bilateral problem any more, and developing into a global cooperation, which extensively contributes to the international society.²⁸

The triangular trade relationship among the United States, Japan and Asian Newly Industrializing Countries (NICs) is a good example (see Table I; also see Diagram I in the Appendices). Japanese industries are also indirectly engaged in business with the United States, which can be described as the following. On one hand, the largest amount of the Asian NICs imports come from Japan. Japan exports machines, high value-added products, capital goods and technologies to the Asian NICs, which are necessary for the production of goods that they in turn export to the United States. On the other hand, the largest amount of Asian NICs exports is directed to the United States, 22% of whose total trade deficit is with the Asian NICs. The quotation above also implies that global U.S.-Japanese cooperation can assist debt-ridden nations to achieve self-sustaining economies.

28 Blue Book 1987, p.3.

Table I. The Share of Trade among the U.S., Japan and NICs in 1987 (%)

	Export to:			Import from:		
	JAPAN	U.S.	NICs	JAPAN	U.S.	NICs
KOREA, REP. OF	17.8	30.7	5.8	33.3	21.4	3.6
TAIWAN	13.0	44.2	11.4	34.3	22.1	5.1
HONG KONG	5.1	27.8	6.2	19.0	8.5	12.7
SINGAPORE	9.0	24.4	10.7	20.5	14.7	9.9

Source: Blue Book of Foreign Affairs 1988, p.110.

In contrast to the American eagerness for leadership, Japan has not been very enthusiastic about taking a strong initiative in the international community. It tended to be interested only in the international matters that are extremely relevant to its national economy. Such limited attention of Japan to international matters has often given other nations an impression that Japan's economic strength is not matched by its political conviction.

Internationalization and Japan's Uniqueness

Japan's foreign policy in the latter half of the 1980s has two aspects, which are prima facie contradictory: internationalization and the preservation of Japan's uniqueness. In adopting internationalization, Japan, which had usually tended to adapt to the given international situation, stepped forward to participate actively in the

international community. When it comes to matters whose internationalization was unfavorable to the orderliness of Japan's domestic politics and economy, preservation of its uniqueness has often served as a plausible excuse to evade internationalization.

Internationalization is the ultimate form of Japan's harmonization policy, which has been considered the only way for Japan to survive in the contemporary world since the first Oil Crisis. For example, it is pointed out in the Blue Book of 1978 that:

Japan has no other choice than to make persistent endeavor toward harmony with other countries in order to ensure its existence, because it heavily depends on the international environment for its survival.²⁹

The Nakasone administration (1982-1987) developed an internationalization policy to improve the image of Japan as an active participant in sustaining the existing international order. Yet, as the trade friction intensified between Japan and the United States, the latter became increasingly demanding in one issue after another. On the part of Japan, there was a realization of the importance of making clear what it could and could not do.³⁰ In other words, Japan would consider external demands, or internationalize, with reservation that it was feasible under its particular domestic circumstances.

29 White Papers of Japan 1978-79, p.7.

30 White Papers of Japan 1982-83, p.19. There was another purpose of making clear the position. Japan feared that a nation without any established position would not be trusted by other nations and even be isolated from the rest of the world.

During this internationalization process, countless articles and books have been produced to analyze the uniqueness of Japanese society, either for promoting foreign understanding of Japan or for condemning the Japanese way as a deviation from international standard of practice. Typically, they point out that Japanese are inclined to draw a line between "inside" and "outside," Japanese and foreigners, or home and other places. Such an inclination presumably stems from the way many Japanese are taught about their nationality. According to the instruction ethos of the Japanese Ministry of Education, a truly international person is "a Japanese who never forgets the Japanese value wherever he may be," or "a Japanese who can naturally associate with foreigners, and yet never forgets his Japanese identity."³¹ This distinction is reflected in Japan's conduct of foreign affairs which is premised upon the notion that, given the reality of differences, countries can nevertheless co-exist and co-prosper in an interdependent world.

The globalization of Japanese corporations serves as an example of Japan's internationalization. Multinational corporations like IBM and Nestle have tended to operate globally with regional headquarters making many important regional decisions. Japanese corporations, in contrast, used

31 Kazuo Kuribayashi, Kokusai Jidai to Nihon (Tokyo: NHK Books, 1985), p.12.

to see themselves as guests, when they first transferred their production overseas, and their development, marketing and financial plans were directed from Japan. The trend for Japanese corporations in the 1980s, however, is to decentralize. Even Hitachi, Matsushita and Toyota, which have prided themselves upon their "Japaneseness", are beginning to realize that their overseas production is now beyond effective centralized control from their headquarters in Japan. They are now following other Japanese multinationals like Sony and Seibu Saison, which were quick to appoint foreign directors and adapt to local institutions a long time ago.³² The Japanese government also encourages Japanese corporations operating overseas to employ more local staff and behave more like members of the local communities.

In spite of this promotion of internationalization, there is still a strong expectation domestically for foreign companies to respect Japan's unique way of doing business, just as the Japanese have begun to adapt to the business practices overseas. Many Americans claim, however, that such uniqueness makes it more difficult for them to penetrate and succeed in the Japanese market than it is for Japanese to do so in the U.S. market. Compared to the visibly large share of Japanese products in the United States ranging from toys to high technology products, American manufactured products have a relatively small share

32 The Economist June 24, 1989, pp.63-64.

in Japan. American business interests claim that if only the Japanese market were more open, their products would prove to be competitive. The Japanese contend that their market is open, because Japan has been one of the most consistent followers of the free trade rules established by General Agreement on Tariffs and Trade (GATT), and therefore these complaints are unjustifiable. In other words, Japanese products are argued to sell well because they meet the demands of consumers, and American products that do not sell well are failing to meet consumers' expectations and in some cases have yet to be improved in order to be truly competitive.

Nevertheless, being inherently vulnerable to American pressures, Japan has promised on several occasions to ensure that foreign companies have the same opportunities in Japan as Japanese companies do. In 1986, Japan signed an agreement providing for fair competition for American semiconductors. However, this arrangement did not result in a significant market success for the Americans. The United States now maintains that the traditional business practices and what it considers unnecessarily complicated economic structure make the Japanese market impenetrable. It is for this reason that Americans cannot enjoy the equivalent freedom of competition in Japan that Japanese enjoy in the United States. This American argument is discussed in detail in Chapter 2.

The Impact of the American Mass Media

To complicate matters, misunderstanding and exaggeration about the Japanese market are often presented by the American mass media and the U.S. Congress as facts.

For many, mass media reportage is the only source of information, and the nature of this is such that it can unnecessarily excite the American public with an image that Japanese are buying up America piece by piece. A symbolic, and very short-lived, example is the \$3.4 billion takeover of Columbia Pictures by Sony and the buyout of the Rockefeller Center by Mitsubishi Real Estates, which are only a fraction of merger & acquisition scenes in the United States.³³ Even though these sales were both offered and initiated by the American companies, who wanted to make a safe and rational deal, the fact that they were takeovers of what the American mass media like to refer to as American icons inflamed emotional resentments and fears among the American public.³⁴ Notwithstanding the fact that Great Britain is the number one foreign investor in the United States and actually has over twice as many assets in the United States as Japan does, and the Netherlands rank as the second major foreign investor, these European actors are rarely noticed. By the same token, when Toshiba was severely condemned by the mass media for violation of rules

33 Out of 170 M&As by Japanese corporations in the first half of 1989, 84 were with American companies.

34 Foreign firms are barred from owning American television stations because of the potential for spreading propaganda.

by COCOM, Vanpenfabrikk of Norway, the major partner in the deal, was barely noticed, though it was equally guilty.³⁵

Many American businessmen and journalists would explain these seemingly discriminatory phenomena by pointing out that they cannot invest freely in Japan (see Table II for a comparison of direct investment of the two nations.) They argue that they do not have direct access to the Japanese market, or even if they do, there are numerous regulations to clear in advance, whereas they can freely invest in Great Britain.

Table II. 1.) Japanese direct investment in the U.S. and
2.) U.S. direct investment in Japan
(as of March 31, 1988)

	Number of cases	Amount (U.S. \$ million)
1.)	15,573	50,159
2.)	6,245	4,010

Source:

Ministry of Finance, Japan: An International Comparison (Japan Institute for Social and Economic Affairs, 1989), p.56 and 58.

In the Japanese view, these American businessmen not only fail to point out the impediments in other Western European markets, but also hide their own failure to have an appropriate strategy of doing business in Japan. Despite this possibility, American businessmen can successfully influence some so-called "Japan basher" Congressmen, who

35 George R. Packard, "The Coming U.S.-Japanese Crisis," Foreign Affairs Vol.66, No.2, (Winter 1987-88), p.348.

make their living by generalizing these exceptional cases and politicizing them.

World-Oriented Goals

Today, pressured by the growing international expectations of its international role, Japan is convinced of its need to re-determine its national goals. For the past five years since 1985, its goals have been "Japan that is Open to the World," "Japan Living with the World," and "Japan Contributing to a Better World."

These goals have inevitably forced Japan to pursue a kind of internationalization different from its traditional one. Japan devotes its greatest effort to increase its disbursement of economic assistance, and Japan is now the largest donor of official development aid in absolute figures. The globalization of Japanese firms resulted in seven hundred thousand new jobs throughout the world as of 1983, and more and more firms intend to increase their local procurements.³⁶ Japan's imports of manufactured products have doubled to 50% of the total imports. Japan expects these kinds of results from the externalization of its economy to contribute to the economic stability of the world. Internally, Prime Minister Nakasone suggested in his education policy for 1986 that Japan should welcome one hundred thousand foreign students-by the year 2000. The

³⁶ The average of local procurement by Japanese firms is 40% in advanced nations, and 50% in developing countries.

objective of this policy is to have a large number of young people learn Japanese, and to have more Japanese people interact with more people from abroad in a domestic setting. He also addressed the nation through a national broadcast, in which he encouraged the Japanese consumer to buy more imported products so that the trade imbalance can be rectified. Companies are now encouraged to create an environment in which foreign businessmen can work comfortably.

The Japanese government has introduced eight comprehensive market-opening measures and programs during the past six years, starting with the External Economic Measures of 1981 and including the Maekawa Commission Report of 1986. Unlike the series of previously announced programs, the Maekawa Commission Report pays significant attention to internal internationalization of Japan and the interests of the consumers. More specifically, it proposes, first, the improvement of housing, working conditions, and vacation, and, second, the deregulation or relaxation of regulations concerning direct investment, import and the distribution system in Japan. Evidence of the implementation of some of these measures is illustrated by the fact that the Japanese economy has been transformed to a domestic-demand-led economy. In 1985, Japan had a GNP growth of 4.7%, 3.7% by domestic demand and 1% by external demand. In 1988, Japan's GNP growth rate was 5.1%, to which domestic demand

contributed 6.9%, while the contribution of external demand decreased to -1.8%.

Though it is premature to make a conclusive evaluation of these measures, it is apparent that the structural reform required by Japan's internal internationalization is well under way. What the Japanese government continues to emphasize to a great degree is that:

Internationalization is not to damage the beauty of the uniqueness and the modernity of Japan; rather, it is to universalize the excellence of its uniqueness.³⁷

For this reason, the government considers it a primary importance to promote mutual understanding with other nations in order to fill in their "perceptual gap and misunderstanding about Japan that cause complication and friction" in Japanese foreign relations.³⁸

IV. Summary and Conclusion

The historical review presented in this chapter clearly indicates that there are three distinctive periods in the development of the Japanese concept of interdependence. First, until the late 1960s the concept was used, in essence, to obscure Japan's dependence on the United States. As a result of the rapid expansion of Japan's economy during the 1960s, Japan became the second largest economy in the

37 Blue Book 1986, p.8.

38 White Papers of Japan 1986-87, p.23.

Western bloc. This encouraging accomplishment was possible only because of American military protection and the huge American market: the former enabled Japan to keep its defense expenditure low and concentrate on its economic growth without worrying about its security; the latter absorbed a great portion of Japan's exports. The year 1965 was marked in the Blue Book as a "new era" that was characterized by multipolarization and multilateral cooperation. Japan considered this period as a good opportunity to be more independent from the United States. Such an attempt was, however, largely unrealistic. Despite the lessening credibility of deterrence and the diminishing potentiality of a nuclear war, at the core of international relations remained the U.S.-Soviet military preponderance. For Japan, the stability in the Asian region was, and still is, crucial to its economic prosperity, and the United States' presence was one of the most important stabilizing factors in Asia. Although the U.S. economy appeared to be declining, it was still the largest and very competitive economy in the world. There were tremendous opportunities in the United States for university education and science and technology research, not to mention business. All these ties were too costly for Japan to neglect. Thus the relationship with the United States had to remain the top priority in Japan's foreign policy. At this time, Japan was psychologically trying to be more independent from the

United States while in reality entangling herself in an inextricable economic relationship with the United States.

In the meantime, an ambiguous word became a popular political term in the United States: "interdependence," which appeared to the Japanese as a convenient expression to obscure their sense of dependence on the United States. In the Japanese eyes, the United States indirectly admitted in the Nixon Doctrine of 1971 that it could no longer sustain the freedom and democracy of the world alone, the liberal international economy in particular, and, in effect, the United States suggested the sharing of the responsibility among advanced nations. By calling their relationship interdependent, Japan wanted to take the opportunity to convince the United States of Japan's importance to the United States, though the two were not in a symmetrical relationship.

Compared to the use of "interdependence" in 1965, which merely had a trade-related connotation, its use in 1972 reveals a shift in Japan's U.S. policy. When Prime Minister Sato and President Nixon stated the importance of interdependence between their nations, Japan not merely confirmed its inextricably close relationship with the United States but also liberated itself from the obsessive sense of one-sided dependence. It has to be noted, though, that Japan continued to be dependent on the United States, and Japan's concept of interdependence at that point was simply a vague realization of the multipolarizing

international order and a more positive assessment of its own status.

In contrast, by the time the first oil crisis calmed down in 1974, interdependence was seen as an element of Japan's diplomatic strategy. Japan was fully aware of her vulnerability to and dependence not only on the United States but also on many other nations for her survival, both advanced and developing nations, and even some Communist countries. The year 1973 can be considered the watershed in terms of the Japanese concept of interdependence. Prior to 1973, the concept meant virtually bilateral dependence on the United States, whereas after 1973, the term meant multilateral dependence on multiple countries. Japan quickly set out to form closer ties with diverse nations, political, economic and cultural, in an attempt to spread its vulnerability. Furthermore, Japan succeeded in making significant adjustments to the changing international environment in such ways as energy conservation and globalization of production in order to overcome its vulnerabilities.

As a result of the globalization of the Japanese economy, Japan's trading partners, who used to be tolerant of and relatively indifferent to invisible barriers against foreign competition in the Japanese market, have become increasingly intolerant. Yet, it was not until 1985 that Japan explicitly recognized that it is a globally influential nation with the consequent need to assume the kind of global

responsibility that other advanced industrial nations expect.

The United States is particularly anxious in this regard due to its trade deficit with Japan, which accounted for an extraordinary one third of the total United States trade deficit, but also the fact that Japan recently became one of the largest foreign investors in the United States. The United States fears that it might lose control over its own economy, if these imbalances persist. In the next chapter, we will elaborate on the changes in the American perception of Japan in light of its concept of interdependence.

CHAPTER TWO.
THE AMERICAN CONCEPT OF INTERDEPENDENCE

In the last chapter, we examined the circumstances under which the Japanese concept of interdependence developed. In this chapter, an American theory of interdependence is introduced first, followed by a historical review of the American perception of post-occupation United States-Japanese relations in light of its concept of interdependence.

I. The Theory of Interdependence

In a world of traditional political-military relations, assurance of national security and self-aggrandizement were perceived as the ultimate goal of a nation, and military force was often the means to that end. In today's world, particularly for advanced nations, the goal is not limited to national security; wealth and welfare of a nation's people is also a goal of first priority. Nations such as West Germany and Japan, followed by the Newly Industrializing Countries, have succeeded in achieving greater wealth and better positions in the world through non-military means such as the expansion of trade. This

makes the previous territorial goal priority increasingly obsolete.¹

Behind this new approach in a nation's goal-setting was the change in perception of military threat caused by the destruction potential of modern weapon systems. The higher the cost of nuclear war and the more certain the benefit of trade, the less willing nations would be to use force. The ever-increasing trade relations among nations raise the question of the utility of applying force against one's customers or potential customers. In today's world where nations are dependent upon their trade, such aggression will discredit their mutual trust. It is also increasingly difficult for a government to obtain substantial support from its people, who have been, after the two world wars, inculcated with views about the virtue of peace and the evil of war. It is, therefore, very likely that a nation may win a war in military terms but lose economically in peace.

"Interdependence" made its debut as a technical term for analyzing contemporary international relations when Richard N. Cooper wrote The Economics of Interdependence: Economic Policy in the Atlantic Community in 1968. In his analysis, Cooper introduced economic interdependence as a consequence

¹ Territorial goals and use of force become relevant when it comes to a matter of life and death or political-ideological conflicts. They also remain relevant for some regional conflicts, primarily in the Third World (for example, in the Middle East). See Richard Rosecrance, The Rise of the Trading State: Commerce and Conquest in the Modern World (New York: Basic Books Inc., Publishers, 1986), chapters 2, 3, 7 and 8.

of not only the expansion of trade, but also of the internationalization and movement of capital, technology, and labor, which brought about a significant change in the international economy.²

The most highly acclaimed work on the analysis of interdependence is Power and Interdependence: World Politics in Transition, which was co-authored by Robert Keohane and Joseph Nye, Jr. The authors argue that the real world of today's politics can be better explained by the theory of complex interdependence than by the theory of realism.

Characteristics of Interdependence

There are three main characteristics of an interdependent world, according to Keohane and Nye:

1. minor role of military force;
2. multiple channels of contacts among nations; and
3. absence of hierarchy among issues.

To repeat a point made earlier, the destructiveness of the use of modern weaponry and its incompatibility with the goal of economic well-being and welfare of a nation makes the role of military forces relatively minor.³ A nation cannot, therefore, necessarily use military threats as the effective ultimatum in demanding policy changes of other

2 Tadashi Kawada, Kokusai Kankei no Seijigaku (Tokyo: NHK Books, 1980), p.90.

3 Keohane and Nye observe that domestic opinion opposed to the human cost of the use of force had little impact on the policies of totalitarian and authoritarian states. See "Power and Interdependence Revisited" International Organization Vol.41, No.4, (Autumn 1987), p.727.

nations due to the potentially adverse effects upon its own nation.

In contrast to the world of the realism, in which the interstate channel is the only important connection, nations are interconnected by numerous channels in an interdependent world. There are transgovernmental and transnational contacts that are equally important and active, and sometimes more influential than interstate contacts. The authors mention multinational corporations and banks as good examples of non-governmental, and often informal connections among nations, which have become a normal part of foreign relations. Some of these non-governmental actors are so influential that they can manipulate the policies of both home and host governments in favor of their own interests rather than that of the public national goals.⁴

The issue of security no longer dominates the agenda of foreign relations in a world of interdependence, as former Secretary of State Henry Kissinger described in 1975:

A new and unprecedented kind of issues has emerged. The problems of energy, resources, environment, population, the use of space and the seas now rank with questions of military security, ideology, and territorial rivalry, which have traditionally made up the diplomatic agenda.⁵

Thus there is an absence of hierarchy among diverse issues in an interdependent world, when a nation's foreign policy is formed.

4 Robert O. Keohane, Joseph S. Nye, Jr., Power and Interdependence: World Politics in Transition (Boston: Little Brown, 1977), p.119.

5 "A National Partnership" Henry Kissinger's speech at Los Angeles, January 24, 1975, *ibid.*, p.26.

Two other characteristics arise out of interdependent relationships among nations. Firstly, economic and social issues very often overlap foreign and domestic issues, involving a countless number of different interests with different goals. For this reason, it is not so simple for a nation to design a coherent and consistent foreign policy as in the realist assumption. Secondly, the diversity of issues provides a nation with more available bargaining choices, from which the state can choose which issue to emphasize and which to ignore. It is a new opportunity for both large and small nations to achieve more favorable conditions for themselves through concessions and compromises.⁶

Sensitivity and Vulnerability

Nations are ever more interconnected in an extreme intricacy in the world of today, but Keohane and Nye emphatically distinguish "interconnectedness" from "interdependence." In an interdependent relationship, nations can either deliberately or unintentionally influence each other by changing their policies and behaviors. The response is categorized in two types, sensitivity and vulnerability, according to the degree of cost and constraint that a nation will have to incur as the result of the changes in another nation's policy. Sensitivity is the liability of costly effects imposed from outside before

⁶ Ibid., p.114.

policies are altered to try to change the situation, whereas vulnerability is the liability to suffer costs imposed by external events even after policies have been altered.⁷

The authors discuss the two types of responsiveness by using a comparison of two nations that import the same percentage of oil in their respective total consumption at a time of shortage of imported oil. Nation A can alter its policy to increase its domestic oil production so that the shortage can be filled, whereas nation B does not have a domestic means or any other choice to substitute for the shortage. In this case, nation A is "sensitive" to the change in policy of the oil-supplying country, but nation B is also "vulnerable" to such a change.⁸

The authors point out that "[asymmetry] is where the heart of the political bargaining process of interdependence lies."⁹ The changes in a policy can be designed either directly or indirectly to influence a particular nation(s), or it can be unintentional. In the former case, a nation takes advantage of the asymmetry of its interdependent relationship with another nation; that is, the asymmetry of the other nation's vulnerability in a particular issue area. In this way, being less dependent, or less vulnerable, can be a source of power to influence other nations.

7 Ibid., p.13.

8 In the real world, nation A looks like the U.S., which adopted a "Project Independence" policy after the oil embargo of 1973, while nation B is like Japan facing the same incident without alternative choices.

9 Ibid., p.5.

Change

Interdependence among advanced nations influencing one another binds them to such an extent that the smooth operation of the international economy becomes critical to the stabilization and healthy expansion of each domestic economy. Ideally, the nations concerned begin to share a certain responsibility and leadership in sustaining the international economy. Matters such as stable exchange rates and rectification of trade imbalances are considered collective objectives to be accomplished through international cooperation. In an interdependent world where no hegemonic or predominant power has the capability to bring order into the international economic system by itself, multiple leadership emerges in international institutions and participating nations jointly conduct surveillance over the system. A multiple leadership pursuing collective objectives produces a set of common rules, which facilitate the management of interdependence, and each nation begins to coordinate its foreign and domestic policies in line with them. Subsequently, the nations gradually lose their autonomous controls and sovereignty over their economies. As a result, their economies will eventually merge into one common framework.

Such an economic integration may lead to a political integration, providing certain requirements are met. The requirements include common institutions, coordination of

policies, and common identities and loyalty. A number of large and small international institutions exist in the world today, in which member nations share responsibility and common goals. They have also made policy coordination a commonplace. As regards the third requirement, however, the authors doubt its realization in the near future, because the conflictual aspect of increasing interdependence has stimulated nationalism in some nations.¹⁰

This brief review of Keohane and Nye's theory of interdependence illustrates interdependence as a condition, in which a nation has an opportunity to exert an influence on others by changing or threatening to change a certain condition of the relationship between them that is too costly for the latter to break. Interdependence is also a phase of the world in transition, a transition from a group of separate and independent nations to an integrated whole under a certain common system.

II. Changing American View towards Japan

President Nixon made his memorable comment in 1969 that:

For years, we in the United States have pursued the illusion that we alone could remake countries. Conscious of our wealth and technology, the dramatic success of the

¹⁰ This observation is made about the relationship between the U.S. and Canada. As their economies became increasingly integrated, Canadian nationalism was stimulated, making it less likely that political integration would take place.

Marshall Plan, we thought we knew what was best for everyone else.¹¹

The new U.S. foreign policy enunciated in the Nixon Doctrine was based on two premises: first, the postwar order of international relations was over; and second, it was high time that other advanced nations should, and could, assume greater responsibilities for their own economic and security needs, which the United States had undertaken for the past twenty five years. The United States also believed that its unfavorable balance of payments and even its domestic problems like inflation and unemployment were attributable to its external responsibility to secure the political stability and economic recovery in free nations of the West.¹²

It is generally argued that the postwar international system operated without any significant instability, as long as the United States was the predominant power in the free world, providing a nuclear umbrella and maintaining open markets. Now that the recoveries of the once-devastated nations of Western Europe and Japan were complete, and competition among them increasingly intense, it was not as

11 Remarks at the Annual Meeting of Inter American Press Association, October 31, 1969, President's Public Speeches 1969 (Office of the Federal Register, National Archives and Record Administration), P.894.

12 In 1970, U.S. military expenditure abroad was \$4.8 billion and its foreign aid amounted to \$3.5 billion, while its private transactions had \$5 billion surplus. It was thus concluded that the U.S. had a disproportionate burden abroad. U.S. International Economic Policy in an Interdependent World - Report Submitted the President by the Commission on International Trade and Investment Policy Vol.1, (Washington: July 1971), p.7.

easy for the United States to maintain its relatively undisturbed control over international affairs. West Germany refused to continue its support of the troubled dollar and decided to assume greater monetary leadership in the European Community. Then, in 1973, followed the oil embargo by the Arab oil producing countries that caused the first Oil Crisis. For the first time in the postwar period, U.S. macroeconomic policy and its economic well-being were substantially affected by actions of foreign governments.¹³

Shift from Paternalism to Partnership

Regardless of its power position, the U.S. has been a strong believer in democracy. Containment of Communist expansion to save the "free world" has been its mission since the end of the last war, so long as it was in the interest of the United States. American multinational corporations and the American forces helped to maintain American leadership in the West. The former functioned to strengthen foreign economies in the free world by demonstrating their technology and management as an alternative to the Communist model; the latter were stationed in strategically critical areas to provide security against potential external threat.¹⁴ It was crucial for the United States to provide Japan with economic and military protection in order to recreate it as

¹³ Political Economy of International Relations, op.cit., p.345.

¹⁴ Ibid., p.243.

an essential counterweight to the Communist strength in Asia.

To repeat an important point made in the previous chapter, the United States-Japanese relationship in the early postwar period was extraordinary in two ways. First, Japan needed to keep its military capacity small, and therefore Japan had to depend on the United States even in terms of conventional self defense. Secondly, unlike Western European nations, which are not separated by waters and were similarly advanced at that time, Japan was an island country, whose neighbors were the two giant Communist powers and those that were less developed than Japan. In this period, the United States was the only major nation that had the capability to be Japan's reliable ally and major trading partner.

The shift from paternalism to partnership took place as a consequence of America's sense that the cost of its assumption of international responsibility was higher than the benefit the United States gained. Before addressing the nature of the evolving partnership, it is appropriate to review the paternalistic era.

- Paternalism -

By 1948, Japan's industrial production rate had reached only 50% of that in the 1930s, and the priority of the occupation goal was changed from democratization to economic recovery. It was extremely important for the United States

to help to accelerate the improvement of Japanese industry and standard of living to make Japan a strong anti-Communist mole. The United States was afraid that if it did not help Japan, "a nation of 90 million industrial and inventive people," it would be compelled to establish ties with Communist China and the Soviet Union.¹⁵

Presidential speeches in the early postwar period indicate that the United States was fully aware from the very outset that Japan had to trade to live. Its ideal scheme for Japan's trade was a complementary relationship between Japan and Southeast Asia. Japan would import its needed raw materials from the Asian nations, which would in return import finished products from Japan. Practically speaking, however, this relationship was expected to take place only at a gradual pace, and, as Eisenhower said in 1959, there had to be more free world outlets for Japanese products. He went on to say that:

Japan does not want to be compelled to become dependent as a last resort upon the neighboring Communist empire.... Should she be forced to that extremity, the blow to free world security would be incalculable. Her industrial power is the heart of collective effort to defend the Far East against aggression.¹⁶

Japan's economic recovery was, after all, an integral part of the U.S. anti-Communist policy.

15 President Eisenhower, address at Annual Dinner of the American Society of Newspaper Editors, April 21, 1956, President's Public Speeches 1956, p.424.

16 Address at the Gettysburg College Convocation, April 4, 1959, President's Public Speeches 1959, p.314.

In economic terms, the United States considered trade as the key to a durable Japanese economy, with attendant benefits to the U.S. domestic economy. The United States intended to buy more from Japan so that Japan could earn dollars to buy more from the United States, which in turn would create jobs in the United States. In this way, trade would enhance a "mutual advantage between the two nations."¹⁷

In general, the idea of the Marshall plan was still the mainstream concept in U.S. Japanese policy of the 1960s. Although the relative burden of the United States eventually became lighter across Asia and Europe, President Johnson continued to talk about "taking care of [Western Europe and Japan]."¹⁸ The United States still had full confidence in its ability to prevent conflicts from starting and remove its causes. A shift to partnership was, therefore, still nominal and rhetorical at that time.

- Mature Partnership -

President Nixon was the first U.S. president who not only expressed the desirability for a shift from paternalism to partnership but actually put it into practice. At an interview in Guam in July 1969, he told the press that:

17 Ibid., p.315.

18. Remarks at the Filmed Conversation of the President and George Meany, AFL-CIO President and Chairman of COPE, February 2, 1968, President's Public Speeches 1968, p.152.

The fastest rate of growth in the world is occurring in the non-Communist Asia, - namely Japan, South Korea, Taiwan, Singapore and Malaysia, - and regional pride and a sense of "Asia for Asians" are becoming major factors.... The U.S. will continue to be a Pacific power, but as far as the problem of international securities are concerned, as far as the problem of military defense, except for the threat of a major power involving nuclear weapons, [the U.S.] is going to encourage and has a right to expect that this problem would be increasingly handled by, and the responsibility of it taken by, the Asian nations themselves.¹⁹

In brief, the United States would provide its Asian allies only with an ultimate nuclear umbrella, while expecting them to be responsible for conventional warfare. In October 1969, the President expressed his wish that the United States and other advanced nations of the West could achieve more "mature partnerships, in which all voices are heard and none is predominant."²⁰ Finally in 1971, the United States unilaterally put its policy into practice.

President Nixon proposed in his report to the Congress that, in sharing responsibility with Western Europe and Japan, the United States participation would remain "crucial, but only as a weight, not the weight."²¹ He also strongly emphasized the necessity of negotiations at the highest political level through a joint initiative of the United States, Western Europe and Japan. He expected that such a joint initiative would provide direction and monitor the progress.

19 Masahide Shibusawa, Japan and the Asian Pacific Region (London: The Royal Institute of International Affairs, 1984), p.48.

20 Remarks at the Annual Meeting of the Inter American Press Association, October 31, 1969, President's Public Speeches 1969, p.894.

21, U.S. Foreign Policy for the 1970s: A report to the Congress by Richard Nixon Vol.1, (1971), p.10.

In his report to the Congress, the President specifically noted his view towards Japan that:

Secured by her alliance with the U.S., Japan can engage itself economically and diplomatically in many new directions independently, without fearing for [its] security or being feared by others.... The nuclear umbrella and alliance provide a stable framework for the evolution of Japan's policy.²²

As long as the Soviet Union was considered the potential enemy, American protection was the main contributor to Japan's growth. In economic terms, even a minor slack in the United States would have a serious effect upon Japan. By the early 1970s, however, their growing economic interdependence made an observer say that the reverse was also true.²³ Upon the recognition of this aspect of its relationship with Japan, the United States began to carefully study its Japanese economic policy. For example, what kind of negotiating posture would force Japan to pay for access to certain U.S. markets with access to certain of its markets, and which of its industries and that of Japan are most vital to ensure market access, and which are most important to protect from imports.²⁴ Another approach was to pressure the European Economic Community (EEC) for more liberalization of its market. The EEC's protectionist policy was thought to directly contribute to the increase in Japanese exports to the United States. Only 3% of the total

22 Ibid., Vol.3, (1973), p.38.

23 James C. Abegglen, vice president of the Boston Consulting Group, "Dynamics of Japanese Competition," U.S. International Economic Policy in an Interdependent World op.cit., Vol.2, p.193.

24 Ibid., Vol.2, pp.165, 181.

EEC imports were from Japan, (or 6% of total Japanese exports), while 15% of that of the United States was from Japan, which was 30% of the total Japanese exports.²⁵

The Impact of the Oil Crisis on the U.S. Japan Policy

The 1973 Oil Crisis was significant in that it added severity to the problem of the American view of Japan. In a report by the Subcommittee on Asian-Pacific Affairs, the U.S. Congress articulated that Japan wanted "the two best possible things in the world: an inexpensive nuclear umbrella and the extremely large American market."²⁶ In the American eyes, the oil cut from the Middle East appeared more serious to Japan than the Soviet threat, and the politics of resource control seemed to make Japan commit itself to a certain policy position. Advanced industrial nations had not even conceived up until this time that Japan could, or would, take such a definitive position. The United States considered the year 1974 a crucial year for Japan to make up its mind to choose among cooperation with China, the Soviet Union, and the Middle East in terms of the supply of oil. China had an abundant reserve of oil but did not have an adequate technology to extract it. The Soviet Union was more likely to be Japan's partner, and to cooperate with Japan in the development of gas and oil in

25. Ibid., Vol.1, pp.214, 219.

26 Oil and Asian Rivals. Hearings 93 Congress, Subcommittee on Asian Pacific Affairs, House of Representative Committee on Foreign Affairs. (Washington, 1974), p.87.

Siberia. Yet, there was little prospect that such a joint development would produce a sufficient amount of energy in the immediate future. It was concluded, therefore, that Japan was going to have to develop a new relationship with the Middle East and Asia without jeopardizing its relationship with the United States. The Congress was convinced that the announced shift to a mature partnership did not stop Japanese political leaders from looking upon the United States as "an immensely powerful" country in economic, political and military terms.²⁷

Japan's vulnerability in energy supply exposed by the Oil Crisis gave the United States another opportunity to demand that Japan should make more effort for its own security. The demand was now justified on the ground of an energy crisis; it was no longer a question of offensive armaments, but simply legitimate defense of a nation's vital foreign energy supply.²⁸

Rationales for Interdependence

In 1971, the U.S. government published an important three-volume report of U.S. foreign economic policy, The U.S. International Economic Policy in an Interdependent World. This report discussed the changing relationship among the U.S., Western Europe and Japan, in which the United States faced critical choices: whether the European

27 Ibid., p.36.

28 Ibid., p.121.

Community and Japan would accept their responsibilities; whether the United States could evolve with the EC and Japan a sound international monetary system reconciling domestic and international economic objectives. In 1974, the U.S. Congress presented another important analysis, Oil and the Asian Rivals. In this analysis, the triangular relationship, or the "triad of the United States, Western Europe and Japan, which are the three major power centers of the world" was depicted as the most crucial in the interdependent world of coming years.²⁹ These reports indicate that both the U.S. government and Congress held it clear that it was in the interest of the United States to promote the triangular interdependent relationship. In sum, the concept of this interdependent relationship was based on four rationales:

1. Major policies adopted by one partner without due regard for the interest of others have potentially disastrous consequences for the operation of the international economic system, in which all are integral parts;
2. The ultimate goal of the promotion of the triad is to create a free trade area encompassing the three most industrialized-advanced power centers;
3. Basically, security and non-security issues should be dealt with separately. However, since prosperity in Western Europe and Japan depends largely on their security guarantee, the strength of their links with the U.S. affects the future of these nations; and
4. Finally, for these reasons, there should be a transformation of these particular alliances into balanced partnerships, which are the framework for collaboration that encompass not only defense but also go beyond it to include other areas of common interest.

29 Ibid., pp.125-128.

The last two of these rationales are particularly indicative of the American view towards Japan. For years, the familiar reference to its constitutional exemption and a potential negative reaction in Asian nations against Japan's rearmament had served as an excuse for Japan's reluctance to spend more on its security. The American perception of interdependence provided the United States with its good reasons for pushing Japan for more defense effort and economic concessions.

III. The Issue of Japan's Security

The United States agrees with Japan on the fundamental point that "the problems of peace and economic well-being are inextricably linked; peace cannot exist without prosperity and prosperity cannot exist without peace."³⁰ There is, however, one major difference between the United States and Japan in terms of the means to enhance world peace. While Japan seeks to enhance world peace through friendship, mutual understanding and economic cooperation, the United States never leaves out the importance of its contribution to world security. President Ford decidedly stated in 1974 that:

³⁰ President Ford, remarks at a Japan Press Club Luncheon, November 20, 1974, President's Public speeches 1974, p.637.

Strong defense is the surest way to peace. Strength makes detente attainable; weakness invites war.³¹

This does not mean, that the United States made light of economic stability; on the contrary, the United States was still the largest donor of economic assistance in the world. What it meant was that, for the United States, defense and economic assistance were two separate means towards the same goal.

It was not, however, until the Soviet invasion in Afghanistan in 1979 that the U.S. pressure for Japan's assumption of greater security responsibility became strong and direct. Before the incident, the United States largely left Japan to decide for itself what it wanted to do in defense, because 1. the Japanese defense base was so small, 2. the United States knew that defense was a sensitive political issue in Japan, and 3. the early 1970s was colored by hopes of detente. For instance, the Nuclear Test Ban Treaty and Nuclear Proliferation Prevention Treaty were concluded; and President Nixon and First Secretary Brezhnev signed the first Strategic Arms Limitation Talks (SALT) in 1972. The United States did only little more than vaguely urging Japan, mostly through Defense Department channels, to do more in defense. In the meantime, the United States planned to decrease its military presence in the Western Pacific.

31 Address to a Joint Session of the Congress, August 12, 1974, *ibid.*, p.11.

Politically we shall remain engaged in all regions. In the Asian-Pacific area, we shall preserve a strategic and economic presence consonant with our large and growing stake in the region. This requires a widening of our cooperation with Japan.³²

In May 1979 when Prime Minister Ohira visited the United States, the two heads of state enunciated a "productive partnership," in which they share political and economic ideals and responsibilities in world affairs. On the same occasion, President Carter welcomed the effort the Japanese government had made in increasing government procurements of offensive equipment from the United States and financial support for the American forces in Japan.³³ In an interview with the correspondents of NHK, the Japan Broadcasting Corporation, the President made a subtle remark on the issue of Japan's security. He said, "defense commitment is a domestic matter, a decision to be made by the Japanese people. We trust your judgement and we have full confidence in you."³⁴

The Soviet invasion of Afghanistan being the turning point, the United States began to show its high level interest in meaningful Japanese self defense efforts. U.S. officials publicly and strongly pointed out the inadequacy

32 Assistant to the President for National Security Affairs, Brezinski, before Japan Society of New York, April 27, 1978, The U.S. Foreign Policy Basic Documents 1977-80 (Department of State publication), p.1027.

33 Remarks at the Welcoming Ceremony of Prime Minister Ohira, May 2, 1979, President's Public Speeches 1979, p.761.

34 Question-Answer Session with NHK, June 20, 1979, ibid., p.1107.

of Japan's defense efforts. In the beginning, the focus was on the GNP ratio of Japan's defense expenditure. In the American opinion, Japan was not raising its defense budget sufficiently in accordance with its GNP growth.³⁵ As the Reagan administration took office, it adopted the same strong stance, but not on such statistical indices as the GNP ratio. Rather, it adopted a policy of discussing defense cooperation on the basis of roles and missions.

The U.S. defense policy for the 1980s was to consolidate and integrate its alliances with NATO, ANZUS, and Japan. Secretary of State Weinberger met Japan's Foreign Minister Ito in Washington in 1981, and conveyed to him that:

A rational division of labor between Japan, the U.S. and its NATO allies would be a central thrust of the Reagan administration's defense policy, although the U.S. would still provide the nuclear umbrella in the Northwest and Southwest Pacific.³⁶

The desirability of an appropriate division of roles between Japan and the United States in the Far East was formally acknowledged by President Reagan and Prime Minister Suzuki in May 1981. The Prime Minister stated that Japan would, within the limit of its Constitution, seek to make even greater effort for improving its defense capability in Japanese territories, surrounding air and sea to a distance

³⁵ From Japan's standpoint, its defense budget had grown 8% annually in real terms during the 1970s.

³⁶ Assistant Secretary of State for East Asia and Pacific Affairs, Holbrook, before Japan Society, New York, November 21, 1980, Basic Documents 1977-80, p.1041.

of 1,000 miles, and for further alleviating the financial burden of the American forces in Japan.³⁷

At first, the United States seemed to commend Japan's increasing awareness of the need to play a greater role in its own self-defense. A U.S. official quoted in his statement a part of the Blue Book 1980 of Japan's Foreign Affairs that said:

International relations are no longer considered a given condition for Japan, but rather something which Japan should help form.... Japan must make a difficult choice, and even sacrifice if necessary.... For this end, it is important to strengthen cooperation and solidarity with free nations of the West (emphasis added).³⁸

The United States took note of it as a significant sign of Japan's commitment in undertaking a certain responsibility in its security.

Before long, however, the United States was disappointed with the pace and inadequacy of the implementation of Japan's determination. First, the role that Japan announced it would adopt could not be carried out at the current level of size and modernization of its air and naval forces. Another U.S. official reported that Japan's Self Defense Forces could not sustain Japan's army divisions, destroyers, and tactical aircraft in combat due to very limited supplies

³⁷ Prime Minister Suzuki's remarks at a press conference, Washington, D.C., May 8, 1981, Basic Documents 1981, p.987.

³⁸ Holbrook, op.cit., p.1039. In its fiscal year 1982 budget, Japan gave defense a significantly higher priority than all other ministries and agencies, including social welfare, in an effort to build military strength up to the degree necessary to ensure Japan's defense.

of ammunition, torpedoes, and missiles.³⁹ The pace was also slow in view of the urgent need for reinforced defense against the rapidly growing Soviet threat in East Asia.

Second, there was a perceptual gap between the two countries concerning the contribution of Japan to world peace and stability. The Japanese government had a security policy based on the concept of Comprehensive Security, which was proposed by Prime Minister Ohira and handed down to his successor Suzuki. The idea of the policy rested upon the concept that Japanese security could not be assured through defense efforts alone; rather its security required Japan to take an active role in the areas of diplomacy and economic assistance. The United States fully supported the expansion of Japan's foreign aid, but it did not regard foreign aid as a substitute for defense.⁴⁰ In addition to the expanding Soviet military presence in the Pacific region, the condition in the Persian Gulf was also unstable. The instability caused by the second Oil Crisis, the Iranian Revolution and the Iran-Iraq war could threaten the oil routes, which Japan and so many other nations depended on. If Japan was better equipped and more willing to defend directly its territories and sea-lanes, the United States

39 Assistant Secretary of Defense for International Security Affairs, West, before a subcommittee of the House Foreign Affairs Committee, March 1, 1982; Basic Documents 1982, pp.1075-6.

40 Assistant Secretary of State for East Asia and Pacific Affairs, Holdridge, *ibid.*, p.1073.

would be better able to defend its common interest elsewhere in Asia and the world.

The more interest the United States found in the Asian-Pacific region⁴¹ and the greater Japan's economic power grew, the more persistently the United States tried to pressure Japan for more defense effort.

IV. U.S. Endeavors to Correct its Trade Imbalance

If Japan has, as we believe, substantially opened her market, why are our trade deficits with Japan so enormous?⁴²

During the three years from 1975 to 1978, the U.S. trade balance turned from a surplus of \$18 billion to a deficit of \$14 billion, whereas that of Japan turned from a small deficit to a surplus of \$16 billion. Bilaterally, the U.S. trade deficit with Japan grew from \$3.9 billion in 1976 to \$7.3 billion in 1977, then to \$10 billion in 1978, which constituted almost 70% of its total trade deficit.⁴³ Such an imbalance is largely attributable to the difference in the composition of goods flowing between the two nations

41 By early 1980s, half of U.S. trade was engaged with the Asian Pacific region. The Pacific Basin has 3/5 of the world output and 1/3 of the world trade (also see Diagram I.)

42 Letter from members of Subcommittee on trade of the House Ways and Means Committee, to the Chairman of the Committee, September 5, 1980, Basic Documents 1977-80, p.1036.

43 Chikara Higashi, The Internationalization of the Japanese Economy (Boston: Kluwer Academic Publisher, 1987), p.25.

resulting from their trade structures and resource endowment. The overwhelming majority of Japan's exports to the United States consists of manufactured products and includes a very small amount of agricultural products, and crude materials or mineral fuels. In contrast, American exports to Japan are heavily based on foodstuffs, crude materials and chemicals. Japan is "the single most important customer" for U.S. agricultural products, which can be best described by President Carter's remark that "there are more acres of food being produced for Japan in the U.S. than being produced in Japan for Japan."⁴⁴ (See Table III.) The United States also provides Japan with most of its aircraft.⁴⁵

Table III. U.S. Agricultural Exports by Selected Country at Destination (1987)

	Amount (US \$ million)	Share
JAPAN	5,700	19.9%
NETHERLANDS	1,975	6.9
KOREA, REP. OF	1,833	6.4
CANADA	1,809	6.3
GERMANY, F.R.	1,284	4.5

Source:

Japan: An International Comparison, op.cit., p.19.

⁴⁴ Remarks at the Welcoming Ceremony of Prime Minister Ohira, op.cit.

⁴⁵ Similar to automobiles, the U.S. aircraft industry imports a great deal of components from Japan.

When Prime Minister Fukuda visited Washington in 1977, he promised that Japan's current account balance would be considerably reduced in its fiscal year 1978 through the expansion of domestic demand and improvement of the access to foreign imports, and pledged that the government would take appropriate steps to that end. Nevertheless, Japan's surplus kept growing instead of shrinking. The United States has since tried every means imaginable to iron out the causes of imbalance.

Automobiles

In order for us to have a glimpse of the United States-Japanese trade friction, the trade problem of automobiles serves as a good example.

With the cheapest gasoline in the world, the best highway system, and enormous distances to travel, the average American automobile evolved into a machine unlike any in the world. It was larger, heavier, higher-powered, and more fuel-hungry than most of vehicles produced abroad.⁴⁶ The second Oil Crisis raised the price of gas once again and subsequently boosted the popularity of small and fuel-efficient Japanese automobiles, leaving the U.S. automobile industry in serious trouble. In this period, three out of four imported cars in the U.S. were Japanese. The U.S. automobile industry needed time to retool and adjust to

46 James A. Dunn Jr., "Automobiles in International Trade: Regime Changes or Persistence?" International Organization Vol.41, No.2, (Spring 1987), p.239.

market transition to small and fuel-efficient vehicles. Rationalization in the American automobile industry resulted in unemployment of five hundred thousand automobile-related workers. This issue was highly politicized when the United Automobile Workers and Ford Motor Company took their complaint to the U.S. International Trade Commission.⁴⁷ As a result of negotiations with Japan, the problem was tentatively settled with Japan's voluntary export restraints (VER). The United States, which insisted that it never pressured Japan to take the measure,⁴⁸ welcomed the measure because it wanted to avoid a trade war that might result from raising barriers on the both sides. Also, by using the voluntary export restraints, the United States was able to limit the imports of Japanese automobiles without violating the GATT rules.

By late 1984, the United States no longer expected Japan to extend VERs on the Japanese automobile exports, as the oil price was stabilized and the U.S. automobile industry was prepared to compete on an equal basis. This decision was announced on March 1, 1985. On March 28, however, the Japanese government announced that it would extend VERs in the following year, with an increase of 24% from 1.85 million cars to 2.3 million. This was in the proximity of

47 Masahide Shibusawa, Japan and the Asian Pacific Region (London: the Royal Institute of International Affairs, 1984), p.72.

48 See White House press briefing by the Deputy Secretary of Press to President, Larry Speakes, May 1, 1981, Basic Documents 1981, p.982.

the full productivity of the Japanese automobile industry. The Congress was particularly outraged by this action on the part of Japan. One Republican representative exploded at a Japanese diplomat, yelling "How can you call it a restraint with 24% increase!"⁴⁹

To make the long and very complicated story short, VERs were extended because of the following reasons. In 1984, the Reagan administration had to deal with the election, the Congress and the trade deficits. Formally, the U.S. government wanted to pursue free trade, and expressly stated that the trade imbalance with Japan must be corrected, not with Japanese voluntary export restraints, but by its market opening. On the other hand, the Congress and most of U.S. automobile producers and workers were in favor of VERs. In March 1985, President Reagan resolved the government policy not to renew VERs with Japan, and instead to pressure Japan for more market opening. Yet, behind the scenes, the U.S. government expected Japan to take a measure to restrain its automobile exports to the United States. Thus, U.S. Ambassador Mansfield was instructed to privately pressure the Japanese government to extend VERs, or "the Congress will take care of the problem."⁵⁰

49 Yoichi Funabashi, Nichibei Keizai Masatsu - Sono Butaiura (Tokyo: Iwanami Shinsho, 1987), p.132.

50 A quote from a memoir of a former U.S. government official, David Stockman, Triumph of Politics, *ibid.*, p.138.

On Japan's part, at first it considered VERs with 2.1 million units. It was presumed, however, to automatically cause a sudden increase in Japanese automobile exports after the termination. Furthermore, the complete termination would cause an estimate of five hundred thousand unit increase a year, which would not be in the interest of the United States. Thus after a careful consideration, the Ministry of International Trade and Industry came to a conclusion that it was better for both Japan and the United States to phase out VERs, and decided that VERs with 2.3 million units were the most reasonable. The U.S. government was angry because, even though it did expect Japan to extend VERs unofficially, it did not expect an increase of 24%.

Despite VERs, the market share of Japanese automobiles in the United States is about 27% and many expect it to expand further because of the local production there. Furthermore, while the U.S. automobile industry works hard to make innovations, its Japanese counterpart is making the same efforts.

The overall significance of the automobile trade friction can be summarized in three points:

1. the American industry became more quality- and competitiveness-conscious; and
2. it gave the American public an impression that Japan would stubbornly resist market-opening, unless pressured pertinaciously by the United States; and

3. in reality, the problem of voluntary export restraints brought into relief the difficulty the U.S. government had in making a coherent trade policy because of its domestic constraints.

Market Oriented Sector Selective Talks

Japan has eliminated virtually all formal tariff (see Graph I in the Appendices for a comparison of tariff burden in the U.S., the EC and Japan) and non-tariff barriers to trade that were specifically criticized by its trading partners as being contrary to GATT rules.⁵¹ In 1985, MOSS talks were initiated to open the Japanese market to U.S. exports of the following products: 1. telecommunication equipment, 2. medical pharmaceuticals, 3. electronics, 4. forestry products, and 5. transportation machinery. MOSS is significant in that microeconomic concerns about particular markets were being addressed in an intensive and comprehensive fashion. This approach addresses the full array of barriers in a particular sector to eliminate any problem in the market system which inhibits import of any products or service in the sector. As a result, the American sales in Japan in these sectors went up 12% in 1986 alone.

51 Kent E. Calder, "Japanese Economic Policy Formation: Explaining the Reactive State," World Politics Vol. 40, No. 4, (July 1988), p.522-23.

The Plaza Accord

In early 1985, the U.S. dollar was peculiarly overvalued in a situation of high budgetary deficit, low economic growth, and interest rates inching downward. The Reagan administration, basically believing in non-intervention, preferred to attribute the dollar's strength to the viability of the American economy.

The problem of the dollar today is that our trading partners have not caught up with the U.S. in economic recovery. I think they have a way to go in changing some rigidity in their customs and their methods of doing business. What we really need is their recovery to bring their money up to value comparable to ours.⁵²

At the same time, however, the United States was beginning to suspect that American products were priced out of foreign markets because of the highly-valued dollar, and that this in turn largely contributed to its \$60 billion trade deficit. The highly-valued dollars suppressed exports while increasing imports to the United States. Tax cuts and increased defense expenditure forced the U.S. government to issue deficit-covering Treasury bonds to finance its budget. Because of the interest payments to foreign creditor nations, the non-trade balance turned into red, making the U.S. assets abroad -\$20.7 billion. It was feared that the credibility of the dollar as the key currency in the international economy would diminish, if no measure was

52 President Reagan, statement at a news conference, February 23, 1985; M. Lenn Brown, Jerel A. Rosati, "The Reagan Administration and Economic Interdependence: Turbulent Relationship with the EC. International Journal Vol.42, No.3, (Summer 1987) p.455.

taken, and eventually the dollar might slump, which would likely cause a worldwide depression. For these reasons, the United States made a turnabout later in the same year and intervened in the exchange rate mechanism.

In September 1985, Plaza Conference of G5, the group of five major advanced industrial nations, was held in New York, where an accord was reached to rectify the appreciated dollar by international policy coordination. As a result of the Plaza Accord, the Japanese currency appreciated 60% and the price of Japanese products subsequently went up almost 40%. Nevertheless, the bilateral trade imbalance was not corrected as dramatically as expected. The major reasons include the following two points. Many American companies are said to have wasted this opportunity to gain back their market at home and abroad by raising prices once again.⁵³ Also, the demand for Japanese manufactured products in the United States was still fairly high.

An indirect impact of the Plaza accord was that the depreciation of the dollar lowered not only the price of American products but also significant economic components within America itself. Capital accumulated in Japan, which was assumed to be utilized for investment and individual consumption in Japan, began to flood into the United States in purchase of real estate and securities.

⁵³ Mike Mansfield, "Sharing Destinies: the U.S. and Japan," Foreign Affairs Vol.68, No.2, (Spring 1989), p.7.

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American producers who had been hurt by the lower sales of their products increasingly demanded protectionist measures to retaliate against Japan. In 1984 alone, there were 300 protectionist bills proposed in the Congress, many of which were specifically designed to offset the domestic effects of trade with Japan. The government, however, was absolutely anti-protectionist. The following is one of the anti-protectionist speeches made by President Reagan, who vetoed these bills.

Protectionist measures like imposition of tariffs on foreign imports looks like they are doing the patriotic things by protecting American products and jobs. But it works only for a short while. What eventually occurs is that home-grown industries start relying on government protection in the form of high tariffs, they stop competing and stop making innovative management and technological changes they need to succeed in world market. In the meantime, high tariffs inevitably lead to retaliation by foreign countries and triggering of fierce trade wars. The result is more and more tariffs, higher and higher trade barriers, and less and less competition. Soon because of the price made artificially high and poor management, people stop buying. Then the worst happens: markets shrink and collapse, and businesses and industries shut down. And millions of people lose their jobs.⁵⁴

Free Trade means Fair Trade

Free trade means fair trade. And where other countries are not playing by the rules, this administration is more activist and aggressive than anyone else in blowing the whistle on unfair trade practices against American producers.⁵⁵

54 President Reagan, Radio Address to the Nation on Free and Fair Trade, April 25, 1987, President's Public Speeches 1987, p.414.

55 President Reagan, remarks at the Annual Meeting of the National Association of Manufacturers, May 26, 1986, President's Public Speeches 1986, p.687.

Having proclaimed its anti-protectionist posture, the U.S. government had to find a way to strengthen the competitiveness of American manufactured products in foreign markets without changing the principle of "free trade." The solution was to give a greater and more explicit emphasis to the principle of reciprocity on a bilateral basis.

Fairness and reciprocity were one of the main principles of the GATT rules. In the 1980s, U.S. officials began to articulate the definition of fairness in their speeches because of trade barriers in the Japanese market. They all insist that the American market should remain open to Japan, only if Japan guarantees the same access and/or the same result for American products to its market as the Japanese has to the American market. For example:

Results are the ultimate measure of success, and thus far, the results [in the Japanese market] are modest at best.⁵⁶

Fairness means we all play by the same rules. We do not want guaranteed success; but we do insist on the opportunity to succeed.⁵⁷

A case in point is the retaliatory sanctions taken by the United States against Japanese semiconductors. Japan agreed to guarantee the same access for American semiconductors to the Japanese market and see to it that there is no dumping.

⁵⁶ Address before Correspondents Club, Tokyo, August 13, 1985, Basic Documents 1985, p.732.

⁵⁷ Assistant Secretary for Economy and Business Affairs, Douglas W. McMinn, "Competitiveness in America: Is Protectionism the Answer?" address before the National Association of Manufacturers' Congress of American Industry, May 27, 1987, Department of State Bulletin August, 1987, p.58.

When the result turned out to be insignificant, the United States judged it as Japan's inability to enforce the agreement, and levied a \$300-million tariff increase on Japanese exports to the United States.

V. The Responsibility of Japan: the American Perspective

American pressures on Japan for market-opening have been incessant for nearly two decades. Generally, the United States argues that Japan has become too large an economy to rely on its external environment. Its economy is a mature one, and its infant industries are no longer in need of protection. As an economic power accounting for about 13% of world GNP, Japan must realize that:

Its economy has been heavily dependent on the willingness of the world to take a gigantic excess of Japanese exports over Japanese imports, - mostly the U.S. Now, when that stops, where does that leave the Japanese economy? Unless Japan does something about its dependence on export surplus, it is going to leave the Japanese economy in very serious trouble. So it is in Japan's interest to change the situation just as it is very much in our interest to change the situation.⁵⁸

As a first step, Japan needed to remind itself that rules of free trade stipulated by GATT are not adequate anymore. The success of GATT over the past decades was based on a framework of rules and commitments that has been widely accepted as being fair. Today, it is in urgent need of

58 Secretary of State Schultz, statement at the press conference, Hot Spring, Virginia, May 8, 1987, Basic Documents 1987, p.556.

repair. Many GATT rules have now fallen into abuse, and one country after another have taken actions outside of existing rules in an attempt to solve their own grave economic problems.⁵⁹ It is, therefore, not considered justifiable when Japan claims that it is playing the game of free trade by the rules.

As a second step, Japan should stimulate its domestic consumption, and rectify its dependence on export surplus for growth. The high savings rate in Japan indicated relatively low domestic consumption and that the Japanese economy looked overseas for growth. Finally, Japan must level the playing field for foreign participants. Japan can fulfill its international responsibility to sustain the international economy by completing these steps.

The United States also regretted that Japan's defense effort was not satisfactory, when its economic power was taken into account. According to National Defense Program Outlines, a Japanese Cabinet resolution in 1976, the role of Japanese defense was defined as a capability to hold a "limited and minor" attack by the Soviets until the arrival of American forces. In order for Japan to fulfill this role, the total expense amounted to one percent of Japan's GNP in the same year. In 1981, as we discussed in Section 3 of this

59 Trade Representative Yeutter, address before the Foreign Correspondents Club, Tokyo, August 13, 1985, Basic Documents 1985, p.731.

chapter, the definition was extended to include self defense capability in Japanese territories, air and sea.

Today, Japan undertakes almost half of the total expense to keep the American forces there.⁶⁰ Japan's defense expenditure in real terms is ranked among the top seventh or eighth in the world, or third or fourth at recent exchange rates.⁶¹ The United States recognizes these facts as facilitative factors for the smooth operation of U.S.-Japanese security cooperation. It was particularly pleased when Japan's defense expenditure exceeded its symbolic 1% of GNP ceiling in 1987, which the United States had viewed as an unrealistic approach to Japanese security. Yet, when Japan's economic and technological capability is taken into account, many Americans still doubt that Japan actually undertakes the full responsibility it is supposed to. The fixed idea that other advanced countries spend more on their national security which could have been spent on other public purposes is not easy to erase.

The following studies by American scholars logically back up the simple arguments of American statesmen that Japan has the capability as well as political responsibility to do

60 It includes the tax exemption of \$120.3 million, the rent of the bases costing approximately \$900 million, and the salaries for Japanese employees working for the American forces, which amount to \$15.32 million. (1\$=220)

61 The imperfection of the real term evaluation arise from the fluctuation of the exchange rate. Thus Japanese defense expenditure can easily increase in dollar terms as the yen appreciates, even when it remains unchanged domestically.

more in contributing to world peace and stability. In their views, the role of Japan's defense defined by the Japanese government is too "regional."⁶² Japan gains benefit from the stability of not only the Pacific Basin, but also from those of the Middle East and Europe. Japanese imports from the Middle Eastern countries accounted for 18% of its total imports in 1986, and its exports to the European Community accounted for 15% of its total exports. Naturally, the economic growth of the United States has extensively contributed to the growth of Japanese industries. The increase in global instability will lead to an increase in the price of primary products, on which Japan heavily depends. Japanese assets abroad will possibly be distrained by the host governments, causing a tremendous loss to the Japanese investors.

With these factors taken into account, the evaluation in terms of GNP ratio becomes meaningful on two assumptions:

1. GNP represents a nation's productivity which was achievable because of the peace and stability of the world; and
2. The defense expenditures of the United States and Western European nations are commensurate with the benefit they gain from the peace and stability of the world.

62 Robert Declé (professor at the University of Boston), "Japan's Defense and Economic Efficiency," John H. Makin, Donald C. Hellman, eds., Sharing World Leadership?: A New Era for America and Japan (Washington, D.C.: the American Enterprise Institute for Public Policy Research, 1989), Japanese edition (Tokyo: Chuokoron Sha, Inc., 1989), p.185.

The study proposes that, if these assumptions are appropriate, Japan should expend between 4.1% and 6.5% of its GNP for defense.⁶³ These are the percentages of the defense expenditures of West Germany and the United States. It is argued in the study that Japan is situated between the United States and West Germany in terms of the benefit from the stability and peace of the world. Even when the GNP ratio of the Japanese defense expenditure in 1985 is adjusted by the NATO definition, the percentage is an estimated 1.9% at the most.⁶⁴

According to another study, Japan would still have achieved 97% of its actual GNP even if its defense expenditure had been 3% of its GNP, or 92.8% even if Japan had expended the same percentage of GNP as the United States did.⁶⁵ These data indicate that Japan's assumption of greater security responsibility would not have a profoundly damaging effect on the Japanese economy.

Relaxed by perestroika in the Soviet Union and other Warsaw Pact nations, where economic well-being has been promoted to a top priority, the United States wants to cut its defense expenditure so that it can reduce its one

63 Ibid., p.175.

64 In the NATO definition, we must include 1. Japan's contribution to the American forces there, 2. other security-related expenditures, such as pensions for veterans, which Japan treats as welfare spending, and 3. economic assistance to substitute military assistance for containment of Communist influence. Ibid., pp.178-79.

65 See Qua Yu Wong (professor at the University of Washington), "National Defense and Trade," *ibid.*, pp.119-67.

hundred-plus billion dollar a year budgetary deficit. At the same time, it is crucial for the United States to support the burgeoning democracies in Eastern Europe and Central America. Two thirds of the foreign assistance budget is already allocated for front-line countries like Egypt, Israel, Pakistan, and Philippines. Thus, the United States is looking to Japan for financial cooperation in these areas because of its budgetary constraints. Japan has responded positively to this request, since it is one of Japan's goals to play an important role in economic assistance.

In response to the economic demand, Japan slowly but progressively carried out structural adjustments and market opening modified to the extent that it does not cause domestic political instability. As a matter of fact, Japan has successfully transformed its economy into a domestic-demand led economy without significant unemployment and inflation. In sum, the concerns of the United States rest upon the opening of the Japanese market: it is a responsibility of the second largest economic power to absorb products, manufactured products in particular, from developing countries so that they can increase their foreign reserves to purchase products they do not, or cannot produce. As regards access to the Japanese market, United States-Japanese trade talks have reached the point where the socioeconomic system of Japan is encompassed in its entirety, regardless of official or unofficial, and foreign

or domestic. The specific details will be discussed in Chapter 4.

V. - Summary and Conclusion

When Japan was war-torn and struggling for economic recovery, the United States benignly provided Japan with necessary assistance. The United States benefited from doing so; the alliance ensured its military and political leadership in the Far East, and trade created jobs in the United States. With the American supervision, Japan was recreated as an anti-Communist ally in the Far East.

The continuous emergence of self-supporting economies in Western Europe followed by the unexpectedly remarkable economic recovery of Japan drew the curtain for the coming age of economic interdependence. In a world of interdependence, even a superpower like the United States was not immune to changes in international political and economic conditions, making it difficult to maintain an unchallenged leadership. As a result, the cost of sustaining the international order became larger than the benefit, and the United States became less and less tolerant of its disproportionate responsibility in the West, which was represented by the fixed exchange rate system and military protection. This sense of heavy burden led to the so-called Nixon Shock in 1971, in which the United States abruptly

decided to shift its relationships with its allies from paternalism to a mature partnership.

In making Japan policy, the United States began to judge the overall U.S.-Japanese relations to be excessively favorable to Japan and unfair to the United States. Japan was perceived in general as a nation which, thanks to the United States, could "engage itself economically and diplomatically in many directions independently without fearing for its security."⁶⁶ In the meantime, as argued in Keohane and Nye's theory of interdependence, economic interdependence is accompanied by vigorous competition among non-governmental actors, and their pressures upon the U.S. government could not be ignored. Particularly since the economic recession in the 1970s, through which the Japanese economy ably survived in spite of the serious impact of the two Oil Crises, these pressures from within the United States gave rise to the linking of economic and security issues. The Soviet invasion in Afghanistan decisively added vigor to U.S. officials, not to mention the Congress, who insisted on the linkage of trade and security in U.S. Japan policy. Thus, Japan was urged to increase its defense effort to improve its capability adequately enough for Japan to carry out its role and mission.

At the same time, there was a linkage of foreign and domestic policies in U.S.-Japanese economic relations. The United States accepted trade barriers that existed in the

66 See footnote 22.

Japanese market against its products, as long as Japan was one-sidedly dependent on it. The more mutually dependent their economic relations grew, however, the more intense the competition became, and many U.S.-Japanese trade issues were politicized in the United States in order to urge the government to pressure Japan to buy more American products. Discontented with the insignificant fruits of a series of both bilateral and multilateral negotiations, which often merely removed visible trade barriers, the United States began to demand a bold structural reform in the Japanese economy. MOSS, the Market Oriented Sector Selective, was the first significant attempt, which comprehensively addressed microeconomic concerns in order to eliminate any impediments to the penetration of particular American products and services.

The United States has since left no stones unturned in pursuit of "fair" access to the Japanese market. It is inevitable for the United States, in its concept of interdependence, to interfere in Japanese domestic policy, should it be necessary for the solution of the competitive crisis. Furthermore, given its size and multidimensional global influence, the asymmetry in the power relations between the United States and other advanced nations has often enabled the United States to exert considerable pressures over other nations on a bilateral basis. For this reason, the United States has often preferred bilateral negotiations with Japan rather than those of a multilateral

nature like GATT. Japanese economic vulnerability to protectionist measures by the United States is estimated to be eight times more serious than the American vulnerability to those by Japan. Under its Omnibus Trade Law of 1988, the United States named Japan, India and Brazil as its unfair trading partners and threatened to unilaterally conduct retaliatory sanctions against them, should there be no promising improvement in the access to their markets. (See Chapter 5 for related discussion.)

In security terms, the integration of the Japanese defense system into the American global strategy has been relatively smooth because of the historical background discussed in Chapter 1. Since 1983, Japan began to consider itself explicitly "a member of the West," which has more strategic implications than "a member of free nations," the term Japan had previously used. In economic terms, however, economic nationalism and cultural differences tend to stand in the way, causing a tremendous difficulty for American attempts to integrate the Japanese economic system into its ideal form of free and fair international economy.

Chapter 3 will review the two concepts of interdependence elaborated in Chapters 1 and 2 and clarify the differences between them.

CHAPTER THREE.
THE DIFFERENCE BETWEEN THE JAPANESE AND
AMERICAN CONCEPTS OF INTERDEPENDENCE

The difference between the Japanese and American concepts of interdependence can be summarized in four contrasts: first independence vs. integration, second, self-consciousness of vulnerability vs. consciousness of other nations' vulnerabilities, third, passiveness vs. assertiveness, and fourth, coexistence of different values vs. common values. Having studied the historical background of postwar U.S.-Japanese relations, we can argue that these contrasts are largely attributable to the difference between the two nations' respective positions in the early postwar international community.

Japan's one-sided dependence on the United States after the Second World War made Japan seek more than a formality of independence. For the United States, on the other hand, such dependence of Japan signified its power over Japan, and the subsequent presence of American forces and economic cooperation in the Far East implied the American power over the region. As discussed in the beginning of Chapter 2, Japan was an integral part of the U.S. global strategy. Thus Japan's wish for more independence conflicted with the U.S. policy. Japan began to view its relationship with the United States more as interdependent when its economic capability increased significantly during the 1960s. This

perception of interdependence was still limited to the mutual trade relations. Although Japan's rapid economic growth led Japan to demand equality and reciprocity in their security arrangement, Japan intended to continue to rely on the U.S. military protection, expecting to benefit economically from small defense expenditures made possible by such security dependence. The U.S. had rarely described its relationship with Japan as interdependent until 1971, when it made a major shift in its foreign policy. Until then, the stability in the Western bloc had been primarily sustained by the American nuclear deterrence and a monetary system with U.S. dollars as the main currency for international transactions.

In the early post war period, Western European nations and Japan were able to benefit from such arrangements without limiting the benefits to the United States itself. As Western Europe and Japan grew stronger, however, U.S. paternalism began to be perceived as unfair one-sided favoritism. Under these circumstances, the United States started to consider its relationships with these nations interdependent, meaning they are all bound, together by common perceptions of Communist threat, free market economy and liberal democratic political system, and they must share the responsibility to sustain the stability of the alliance. In this way, it was presumed, the United States would still be able to pursue a coherent global strategy to integrate its allies into one common framework.

The Japanese concept of interdependence is also characteristic of Japan's self-consciousness of its vulnerability, which was exposed by the Oil Crisis of 1973. For Japan interdependence was a diplomatic means to depart from extreme dependence on a small number of countries for the supply of vital energy resources to a set of more diversified relations. By broadening the scope of its diplomacy, Japan tried to attenuate negative effects which might be inflicted by policy changes in other nations, its trading partners, in particular. It is true that the overwhelming majority of world economic transactions still takes place within national borders,¹ and Japan's dependence on foreign trade in terms of GNP ratio is not extraordinarily high in comparison with other major advanced nations.² Less than 20% of its work force generates 80% of total exports, which makes up 15% of its GNP.³ Japan is, however, extremely dependent (mostly 90% or more) on imports in terms of indispensable primary resources, which are Japan's lifeblood (see Table IV and V.) For this reason, Japan wants to prevent negative influences upon its

1 The ratio of foreign economic transactions per world GNP increased only 4% from 7.4% in 1960 to 11.5% in 1980. Gaiko Forum (a publication of the Ministry of Foreign Affairs in Japan), May, 1989, p.17.

2 According to the White Paper on International Trade in 1985, Japan's dependence on exports was 16.8% and imports 13.8%, which is lower than major West European countries.

3 Kent E. Calder, "Japanese Foreign Economic Policy Formation: Explaining the Reactive State," World Politics Vol.40, No.4, (July, 1988), p.540.

relationships with energy-exporting and energy-producing countries. Thus Japan does not consider interdependence as an opportunity to take advantage of other nations' vulnerabilities or wield its economic power to secure the availability of its lifeblood.

Table IV. Import Dependency on Natural Resources of Selected Countries (1987) a)

(%)	JAPAN	U.S.	F.R.G.	FRANCE	U.K.
energy b)c)	80.6	13.8	53.8	56.2	-16.9
coal c)	86.7	3.8	0.5	52.4	7.3
oil c)	99.6	36.8	95.4	95.9	-65.7
natural gas c)	94.8	4.1	73.0	85.9	22.0
iron ore	97.4	28.7	99.4	68.1	98.0
copper	97.4	24.4	99.7	99.9	99.9
lead	87.2	50.2	82.1	95.5	97.0
zinc	76.2	81.0	78.1	88.1	96.6
tin	99.7	99.7	100.0	100.0	0.0
bauxite c)	100.0	93.0	100.0	44.4	100.0
nickel	100.0	100.0	100.0	0.0	100.0

Note:

a) Degree of import dependency = (import volume - export volume) / (domestic production volume + import volume - export volume) x 100.

b) Figures calculated using data in oil equivalent terms for coal, coke, oil, natural gas, hydro, and nuclear generated electricity.

c) 1986.

Source:

OECD, Energy Balance of OECD Countries, 1985/1986; WBMS, World Metal Statistics, Japan: An International Comparison, op.cit., p.66.

Table V. Japan's Import Dependency on Selected Food (1986)

WHEAT	86%
BEANS	92%
MAIZE (CORN)	100%
CEREALS	67%

Source:

Ministry of Agriculture, Forestry and Fisheries, Japan: An International Comparison, op.cit., p.18.

The United States is, in contrast, still much less vulnerable to changes in external conditions compared to Japan, and can constrain other nations to have them remain under its influence. The overall asymmetries in the interdependent relationships with its allies and friends deriving from its multidimensional power make the United States think about how to use its relative power to dissuade others from acting against American interests. Similarly, as former Secretary of State Vance strongly pointed out:

The issue is not whether we are strong or not. We are. The challenge is to use [our] unquestionable strength appropriately and effectively to advance our interests in a world undergoing different kinds of changes.... The first element of [the] changes is the evolution from an earlier period of American strategic supremacy to an era of stable strategic equivalence.⁴

"The different kinds of changes" the world was undergoing were such that military preponderance alone did not define a

⁴ Secretary of State Vance, address before American Society of Community and Junior Colleges, Chicago, May 1, 1979, Basic Documents 1977-1980, p.42.

nation's power. Another former Secretary of State, Kissinger poignantly described the situation that:

The traditional agenda of international affairs - the balance among major powers, the security of nations - no longer defines our perils or our possibilities.... Now we are entering a new era. Old international patterns are crumbling; old slogans are uninstru^{ctive}, old solutions are unavailing. The world has become interdependent in economies, in communications, and in human aspirations.⁵

As discussed in the second section of Chapter 2, the United States designed a set of rationales for interdependence in view of the change in the face of international relations. Economic interdependence and alliance were strongly linked together, a creation of free trade area was declared as an ultimate goal, and American allies were expected to share the responsibility in not only the international economy but also their own security. This virtually unilateral implementation of a shift in the alliance relationship leads us to another contrast in the two nations' concepts of interdependence, passiveness and activeness.

Japanese foreign policy has often been described as "reactive" and "passive." This is largely because of its early postwar behavior to observe the relationship among the former Allies, lean towards the side which Japan judged advantageous to its interests, and concentrate on economic growth. In pursuing a mercantilistic foreign economic policy, Japan tended to be submissive and modest, refraining

5 "A New National Partnership," a speech by Henry Kissinger at Los Angeles, January 24, 1975, Power and Interdependence op.cit., p.3.

from overt political challenge. Internally, conflict of vested interests in the institutionalized business relationships, lack of strong leadership, and the procedural complexity in the political system make Japanese democracy even more time-consuming to reach consensus than other democracies. More often than not, a new policy falls through due to such inefficiency.⁶ Rather, Japan has tended to put off the implementation of a change until gaiatsu, external demand pressures, reach the high political level. Even when Japan was fully aware of the increasing international expectation for its contribution to the international community, Japan reluctantly rather than willingly recognized the fact that economic power must involve corresponding responsibility. For example, the use of words such as "cannot help but..." in the following quotation seems to suggest Japan's reluctance.

The increasingly deepening interdependence of the world today demands that every nation base its foreign policy on the spirit of international harmony.... As Japan has become an important part of the world economy, it is in a situation where it cannot help but behave commensurate with its economic status (emphasis added).⁷

It can be argued further that Japan is not yet accustomed to being influential. An American Japanologist says that Japan is still prepossessed with "catch-up-with-the-U.S.-and-

6 Kenneth B. Pyle, "Japanese History and the Politics of Responsibility Sharing," Sharing World Leadership? op.cit., p.73.

7 Blue Book 1985, p.254.

Europe syndrome" of 1950s and 1960s.⁸ Japan confesses likewise in the Blue Book that:

Occupying a relatively inconspicuous place in the international community for many years following the World War II, Japan considered the international environment as a given. It was inconceivable then that Japan would have any major impact on the international situation. Yet, today Japanese actions have a major impact, which it has never had, not only economically but across the entire spectrum of international relations. With the world growing relatively smaller nowadays, it is imperative that Japan bear a greater responsibility and play a more active role as a main actor for maintaining and promoting the international order.⁹

In sharp contrast to Japan, the United States has been a superpower with incomparable influence and power since the Second World War, and has an abundance of experiences in making use of its own strength as well as other nations' vulnerabilities. In this respect, it is fair to say that the United States has been most assertive in postwar international affairs. As a hegemonic power establishing most of the important frameworks for the postwar international order, the United States is accustomed to its rule-making and rule-enforcing powers.

Confidence in its strength is the very magnetism and dynamism that unites Americans as a nation. It is, therefore, disturbing to the Americans when their leadership is being challenged, especially by nations like Japan, which used to be dependent on U.S. protection. As argued by Keohane and Nye, the hegemon's rule-making and rule-enforcing powers begin to erode as economic power of

8 Jackson Bailey, Asahi Shinbun March 10, 1990.

9 White Papers of Japan 1987-88, p.19.

secondary states increases, which enables these emerging economic powers to become more independent from the hegemon.¹⁰ At the same time, the cost of leadership the United States had assumed became less rewarding in terms of its economic and political dividends. The discomfort of economic challenges from Western Europe and Japan was compounded by a strand of pessimism that the United States was declining in world status. Internally, U.S. presidents and government officials frequently spoke of Strong America to wipe out such pessimism and confidence crisis, which were widespread among the American public due to the bitter legacy of Vietnam. For example, President Carter tried to assure its allies and friends that:

As friends, you [the people of other nations] can depend on the U.S. to be in the forefront of the search for world peace.

I have a quiet confidence in our own political system because we know that democracy works. We are confident that democracy's examples will be compelling, and so we seek to bring those examples closer to those who are not yet convinced [of] the advantages of our kind of life. We are confident that democratic methods are the most effective. (Emphasis added.)¹¹

As has been mentioned in previous chapters, the United States began in the early 1970s to assert the linkage between economic interdependence and security, and thereby forming a more solid and integrated network of the Western allies with itself at the apex. The United States would warn its allies and friends that the Soviet attempt for a

10 Power and Interdependence, op.cit., p.45.

11 'Message to the People of Other Nations on assuming office, January 20, 1977, President's Public Speeches 1977, p.4.

global reach could threaten the sea-lanes and other connections that link their access to each other's markets. They must, therefore, strengthen their solidarity and alliances to prevent Communist conquest and enhance their mutual economic benefits.

Lastly but never the least, the difference between the Japanese and American concepts of interdependence is attributable also to the fundamental difference in vision and philosophy. While the United States believes in the universality of American ideals, which are to be realized through the process leading interdependence into integration, Japan generally perceives the world as a coexistence of a variety of different values and systems.

The pervasive cultural influence of the United States in the postwar period helped to shape people's desires and perceptions of alternatives so that their preferences in international politics and economy were concordant with those of Americans. Due to the substantial long-term effect of American cultural influence, the values of other nations' people were conditioned to be compatible with American wishes, and, therefore, the United States did not have to exert power over others overtly.¹² In this way, American influence could insidiously come to penetrate the politics, economies and societies of American allies and friends.

12 Bruce Russett, "The Mysterious Case of Vanishing Hegemony; or Is Mark Twain Really Dead?" International Organization Vol.39, No.2, (Spring, 1985), p.229.

Furthermore, compatibility can eventually enhance the efficiency of the solidarity among allies.

Japan, on the other hand, had neither the power nor intention of convincing other nations of the virtue of the Japanese way of life and thinking. With its power limited to economy and technology, Japan has preferred to make concessions to external demands rather than risk its relationships with other nations. Philosophically, explains Taizo Watanabe, Foreign Ministry spokesman, Japan considers it insensitive and impolite to interfere in domestic matters of other nations, unless it is so requested. Japan, therefore, does not behave like a nation with a missionary ambition.¹³ Some are outspoken, saying that having a vision or philosophy is a kind of arrogance, and one should never preach to someone else how to live.¹⁴

The lack of global or universal vision in Japanese foreign policy is also caused by Japan's prewar experience, an unsuccessful attempt to establish a Greater East Asia Co-Prosperity Sphere. The objectives of the policy were promotion of friendship and economic cooperation among East Asians, expulsion of Western colonialism, and prevention of Communist conquest. Japan, however, was not only unable to obtain the support of most of the Asians but also provoked American and British antipathy, which led to a tougher

13 Chuokoron January 1990. p.311.

14 A comment by a Japanese correspondent for AERA (a Japanese weekly journal published by Asahi Shinbun) cited in Chuokoron, *ibid.*

American policy towards Japan and its cancellation of the U.S.-Japanese Commercial Treaty in 1940. Even this prewar vision of the Japanese Empire was limited to the Asian region. Although one may argue that it was the means employed, not the vision of the Greater East Asian Co-Prosperity Sphere itself, that was at fault, as some Japanese historians did in the 1960s.¹⁵ The defeat in the Second World War completely inhibited Japan from making a similar attempt. Ironically, the incongruence between the lack of a global strategy and the reality of its economic power caused Japan's trading partners to claim that it is hard to figure out the intention of Japan, and it makes them feel insecure to think of a Japan with tremendous wealth, but with no apparent philosophy. Another irony is that Japan's search for more independence actually resulted in more interdependence of the nation than before. In fact, Japan's extended economic cooperation and the internationalization of Japan have accelerated the speed of integration of Japan into the international system. Moreover, the economic interpenetration between the United States and Japan has caused, as will be elaborated in the following chapters, many unexpected conflicts involving domestic politics and socio-cultural values.

15 For example, see Fusao Hayashi, Daitoa Senso Koteiron (Tokyo: Bancho Shobo, 1964.)

Japan's purchase of U.S. fighters, F-15s, exemplifies an aspect of the difference between the two concepts discussed above. This case evidently reflects the U.S. intention to integrate the Japanese defense system and the defense-related industry into its system structurally, which contradicted Japan's ideal of its own defense system complementary to the American system.

Japan intended to develop its own FSX fighters so as to assume more responsibility for its security and free itself from dependence on foreign know-how. Such an effort was expected to unburden some of the costs that have been shouldered by the United States. On its part, the United States tried to prevent Japan from working on its own, and suggested that Japan base its new fighters on F-15, and also work in a joint development project with the United States. The United States argued that Japan's defense role and mission did not require the kind of an expensive project that Japan was planning, and a joint development would save a considerable amount of cost. In this way, the United States assured the compatibility of Japan's defense system with its own and an exclusive inflow of scientific and technological data from Japan. Furthermore, it also secured participation of U.S. industry in Japan's very large projects. Japan, on the other hand, failed to go on an independent way. The same kind of negotiation applied to

the licensing of 100 P3C antisubmarine aircraft, and the purchase of the sophisticated Aegis warning system.¹⁶

The beginning of a world without walls realized by the recent changes taking place in the Soviet Union and Eastern Europe raises a question of the validity of the Communist threat in the future as a major force that keeps the Western allies in unity. In this regard, U.S.-Japanese relations may become somewhat troublesome, since the linkage politics employed by the United States would become less effective as the Communist threat diminishes.

The four contrasts examined in general terms in this chapter clearly indicate that the more symmetric U.S.-Japanese interdependence becomes, the more difficult for the two nations to arrive at an easy solution for their friction. Although it is too early to predict the future of U.S.-Japanese relations, an indication of such difficulties can already be seen in the Structural Impediment Initiative talks of 1989 and 1990, which will be discussed in the next chapter. To become more symmetric in interdependence, however, also means more mutual interpenetration into each other's economic systems, since the United States proves to be the major partner of Japan. Of course, Japan may increase its power by enlarging activities in Europe and the

16 George R. Packard, "The Coming of U.S.-Japanese Crisis," Foreign Affairs Vol.66, No.2, (Winter 1987/1988), p.355. Mike Mansfield, "The United States and Japan: Sharing Our Destinies," Foreign Affairs Vol.68, No.2, (Spring 1989), p.9.

Socialist bloc. Yet, the economic integration of the European Community is likely to make it considerably difficult for Japan to penetrate into Europe, and the future development of the Socialist bloc remains uncertain.

In the most immediate future, therefore, Japan seems to have few other choices but to muddle through with the United States. Thus, to iron out the differences between the two nations' concepts of interdependence should be of some help to smooth U.S.-Japanese relations. Moreover, it is likely to have a positive effect upon world stability because of the increasing importance of U.S.-Japanese relations in the world.

CHAPTER FOUR.
**THE IMPACT OF THE DIFFERENCE BETWEEN THE JAPANESE AND
AMERICAN CONCEPTS OF INTERDEPENDENCE**

The previous chapters clarified that there is a gap between the Japanese and American concepts of interdependence. How did or does this gap actually affect U.S.-Japanese relations? Three specific cases have been selected to study its actual impact: the change in Japan's official development aid policy; the U.S.-Japanese Structural Impediment Initiative talks; and the argument of revisionism, which is gaining popularity among the American public as a way to handle U.S.-Japanese relations.

I. Foreign Assistance Policy

Japan's Official Development Aid

In the years following the Oil Crisis of 1973, there were exchanges of visits by high level officials of Japan and Middle Eastern countries. These mutual visits helped to provide more information and knowledge about each other, and above all, Japan's generous economic and technical assistance led to an upgraded image of Japan.

It was emphasized in Chapter 1 that the first Oil Crisis had a decisive impact on Japanese foreign policy making. The bitter experience made Japan aware for the first time that foreign policy without due regard to the interests of energy-producing countries could be eventually detrimental to Japan's interest. The significant changes in the distribution pattern of Japan's Official Development Assistance is evidence of this understanding. In this way, Japan began to consider its economic assistance seriously as a diplomatic strategy.

According to the guideline for ODA, which first appeared in the Blue Book of 1981, Japan distributes its ODA in consideration of two standards, first the degree of interdependence, i.e., the overall importance of the recipient countries to Japan, and second the degree of their need and poverty. For instance, in order for a country to be qualified as a recipient of Japanese ODA in 1989, the country's per capita GNP in 1987 had to be smaller than \$1,940. However, Brazil, whose per capita GNP was \$2,020, was granted yen loans because of its grave debt. South Korea, which received special consideration because of its close relationship with Japan, has graduated from Japanese ODA since its per capita GNP reached \$4,000. In accordance with these standards, Japan today distributes more ODA to more countries of different regions. The diversification of ODA has invigorated Japan's trade with them as well, in particular in the Middle East and Latin America. Recently,

Japan was also prompt in offering \$80 million in economic assistance and \$35 millions in export credits to Poland and Hungary.

Before it learned that the world consisted of complexly intertwined interests of energy-producing countries and energy-consuming countries, Japan simply contributed more than 90% of its ODA to Asia. After the Second World War, it was crucial for Japan as an Asian-Pacific nation to restore politically and economically favorable relationships with Asian nations. Given this circumstance, the emphasis on Asia is understandable. Formally, Japan's ODA was supposed to serve as a contribution to the peace and stability of Asia. Besides this objective, it also secured Japan's access to their natural resources, raw materials and markets. These were all vital to Japan's economic development especially during the early stage of its recovery from the war.

The Oil Crisis of 1973 proved that oil was "Japan's Achilles Heel,"¹ and that Japan lacked a diplomatic strategy for dealing with this vulnerability. It is fair to say that Japan's tendency to avoid political commitments in international affairs largely contributed to the OPEC's decision to label Japan as an unfriendly nation of Arabs, despite Japan's enormous oil imports from the Middle East. (See Chapter 1 for details.) Japan feared that a similar

1 A feature article on Economic Security in the White Paper of MITI, White Papers of Japan 1983-1984, p.182.

situation might happen with other countries producing vital natural resources and raw materials.

Japan's dependence on its trade with developing countries is quite high in terms of its need for natural resources and raw materials, one of the highest among major advanced nations. In 1975, Japan's imports from developing countries accounted for 49.6% of its total imports, and exports for 53.5%. In 1982, 88% of Japan's imports of energy and natural resources was from developing countries. The fear of competition over not only oil but also other vital energy resources motivated Japan to extend its scope of cooperation to energy-producing countries. As a result of this new policy towards developing countries, the list of recipients of Japan's ODA was diversified.

- The Objective of Diversification -

A comparison of the breakdown of Japan's ODA by recipient countries before and after the oil crisis clearly indicates that Japan began promptly to spend more on other regions beyond South and East Asia. Consequently, the share of assistance to the Middle East tripled to 11%, that to Africa quadrupled to 7%, and that to Latin America increased six-fold to 6%.²

² Africa's share in the total ODA has been particularly increased, which is 11.3% today, to help the poverty of the region. The ODA to Latin America used to have a share of 9% in the mid-1960s largely because of Japanese direct investments and a large number of Japanese immigrants in the region, but it was reduced to only 1% in early 70s.

The specific strategy represented by such a drastic change in the ODA distribution pattern can be summarized as the following.

Japan must grasp the significance to its own interests of the geographic regions of, as well as the shipping safety in, the Pacific Basin, the Gulf and countries bordering or adjacent to the strategic straits and canals, which include the Strait of Malacca, the Suez Canal, the Strait of Hormuz, the Panama Canal, and the Cape of Good Hope. Quite a few countries of these areas are politically unstable. In Japan's view, the best assurance of its security can be achieved by building mutually rewarding economic relationships with these countries, which is known as Comprehensive Security. To that end, Japan has given a considerable amount of credit to ODA as the effective means to contribute to the stability of developing countries.

The surest insurance of free and safe passage through these straits and canals lies in the peace and order of contiguous countries brought about by the smooth development of their economies and stabilization of their peoples' livelihood.

It is, therefore, necessary for Japan to cultivate closer relationships with these countries and contribute to their economic development.³

Such a concept still prevails as reflected in the International Cooperation Initiative, which was first announced by Prime Minister Takeshita in London, 1988. This concept is based on three non-military means: cooperation for world peace, enhanced ODA, and cultural exchanges.

3 Economic Security, op.cit., pp.182-184.

- The Objective of Increased Disbursements -

The increase in Japan's ODA disbursement is a response to external expectation for the redistribution of its economic wealth. A desirable form of North-South interdependence is, as stated in the Whitepapers of Economic Cooperation compiled by the Ministry of International Trade and Industry, that richer countries redistribute their wealth to poorer countries, and at the same time help those that are suffering from hunger and poverty. Japan was, too, an ODA recipient country until 1954. The Tomei Expressway, which connects Tokyo and Nagoya, could not have been completed without the assistance of the World Bank.

Originating as an obligatory part of the war reparation agreement to Burma, Japan's ODA has been distributed mainly in the form of yen loans, bilateral grant aid, and donations to international organizations such as the IMF, the World Bank and the Asian Development Bank.

Traditional donor nations of significant amounts of foreign assistance such as France, Great Britain and the United States appeared to be afflicted with aid fatigue during the recession years in early 1980s. Subsequently, the expectation for Japan's increased ODA grew stronger among the advanced nations as well as developing countries.⁴ Japan has since made considerable progress in increasing its

4 The Development Assistance Committee of OECD recommends the ODA/GNP ratio be raised to 0.7%, but Japan's figure has been in the vicinity of 0.33% for the last seven years.

disbursements for ODA. According to the Blue Book of the Japanese Foreign Affairs:

Japan is working on its Fourth Mid-Term Target to raise its total ODA disbursements to more than \$50 billion for the first five years starting from 1988. Japan is moving on to make an even greater international contribution so as to respond positively to the expectations of both the North and South.⁵

The quotation above gives an impression that Japan increased its ODA disbursements more in expectation of pleasing other advanced nations than sincerely wanting to help developing countries. Similarly, cynics and journalists who want sensationalism often say that Japan considers ODA as the "membership fee" to the club of advanced nations. Despite Japan's full eligibility to the membership of the OECD, they say that European governments are "crusty and snorty," and so Japan either turns its gaze to the Third World and uses ODA as a "check-book diplomacy" to make friends, or increases ODA disbursements in order to please other advanced nations.⁶

U.S. Foreign Assistance Policy

U.S. foreign assistance takes two forms: provision of military personnel and equipment, and economic assistance. In contrast to Japanese policy, the American perception of interdependence has not affected the fundamentals of U.S. foreign assistance policy, which are the achievement of 1. self-support, 2. workable economy, and 3. democratic social

5 White Papers of Japan 1987-88, p.23.

6 The Economist June 17, 1989, p.25.

and economic reforms. Foreign assistance policy has been consistently a part of the U.S. foreign policy to "win the heart of developing countries for capitalism and democracy in contrast to the Russian emphasis on governmental planning and one-party control."⁷

In the early postwar period, the emphasis of the foreign assistance policy was given to the reconstruction of Western Europe. The Marshall plan replaced the United Nations relief and rehabilitation aid in 1947, as the United States found out that the latter leaked out to Eastern Europe. The emphasis on the reconstruction of Western Europe attributes to three factors:

1. European economies had been highly integrated and advanced. They dominated half of the world trade before the war;
2. For this reason, Europe was where the U.S. assistance could be most immediately effective. The recovery would soon be reflected in other areas, as supplies for Europe were procured from non-European countries; and
3. The location of Western Europe was important in strategic-security terms.

The Soviet Union began pushing its own interest by means of credits extended to other countries in the 1950s. U.S. President Eisenhower stated:

⁷ Elliott R. Morss, Victoria A. Morss, U.S. Foreign Aid-an Assessment of New and Traditional Development Strategies (Colorado: Westview Press, 1982), p.19.

Communist tactics against free nations have shifted in emphasis from reliance on violence and the threat of violence to reliance on division, enticement, and duplicity. We must act in firm assurance that the fruits of freedom are more attractive and desirable than the record of Communism.⁸

The U.S. military assistance was allocated to countries which were on the rim of the Communist world and vulnerable due to widespread misery and social discontent. At the same time, many experts began to argue that the United States should place greater emphasis on enhancing political awareness and social reforms in newly independent developing countries. In all these countries, millions of people lived without adequate food, housing and education, and the Communists moved among them and said "come with us."⁹

In 1961, President Kennedy announced an anti-Communist foreign assistance program called the Alliance for Progress, which was particularly designed to support social and economic reforms in Latin America, such as education and training opportunity, banking and housing. The Foreign Aid Act of 1962 similarly permitted the United States to speak with a stronger and more effective voice to developing countries through military and economic assistance.

The pressure for increased political participation "reached its zenith" in Title IX of the Foreign Aid Act of 1966. It called for an emphasis to be placed on:

... assuring maximum participation in the task of economic development on the part of people of developing

⁸ State of the Union, January 5, 1956, President's Public Speeches 1956, p.5.

⁹ President Kennedy's broadcast remark on trade and foreign aid, September 23, 1962, President's Public Speeches 1962, p.713.

countries through the encouragement of democratic private and local institutions.¹⁰

During the late 1960s and 1970s, the emphasis was given to helping the poor over strategic and political considerations, though the two were often intertwined. Under the Foreign Aid Act of 1973, for instance, the highest priority was given to direct improvement of the lives of the poorest of the people of developing countries and their capacity to participate in the development of their countries.

In the late 1970s, the hope for detente was dimmer and the two superpowers appeared as though they were competing in an aid fight. In 1980, President Carter stated that "meeting the competition with the Soviet Union in various places in the world is not an easy challenge without using the tremendous military arsenal that is available to him as Commander in Chief," and requested that the Congress approve the foreign aid budget.¹¹

The importance of military assistance and democratic reforms is still a basic pillar of today's U.S. foreign assistance policy. As pointed out in Chapter 2, the United States considers military assistance as a wherewithal without which the best development program and wisest diplomacy cannot work. Economic assistance helps to reduce poverty and economic and social inequalities that foster

10 U.S. Foreign Aid op.cit., p.21.

11 Remarks at a White House briefing for members of Congress, May 19, 1980. President's Public Speeches 1980. p.941.

violence and external interference. Thus, military and economic assistance are complementary, and not sufficient when separated.

In the U.S. foreign assistance policy, democracy is a "problem solving mechanism." A U.S. official explains the importance of democracy as the following:

1. Democracy's consultative process offers the best means of translating the people's instinctive longing for peace into government policy;

2. Moderating power of effective democracy is the surest way to prevent tensions from breaking down into internal violence;

3. It is the best chance for stability that investors need to plan ahead, confident that the future is less likely to hold arbitrary shift in government policy or sudden outbursts of civil strife; and

4. As a matter of diplomacy, it is far easier for the U.S. to deal with democratic nations than non-democratic nations, and also to mobilize U.S. public support for foreign policy action.¹²

Summary

It is not surprising that the comparison between Japanese and the U.S. foreign assistance policies yields a conclusion similar to the comparison of their concepts of interdependence.

Japanese ODA policy is based on three considerations: 1. in the context of North-South interdependence, to

12 Assistant Secretary of State for Inter-American Affairs, Langhorn A. Motley, address before Council of the Americas, December 8, 1983, Department of State Bulletin February 1984, p.44.

redistribute its wealth, and to help developing countries achieve self-sustaining economies;

2. as an economic development model, to respond to learn-from-Japan kind of request for technical assistance; and

3. as a trading nation which bases its livelihood on trade in order to achieve any sort of economic growth, to reduce its vulnerability and secure a steady expansion of the Japanese economy.

The U.S. policy is, like Japan, directed to helping developing countries achieve self-sustaining economies and hopes to receive economic benefits from them. Such economic development, the United States believes, can be achieved through the promotion of democratic and social reforms. Thus, the United States considers it necessary to give advice to developing countries in terms of their domestic policies. For instance, the Central American Democracy, Peace and Development Initiative Act of 1984 authorizes the United States to provide funding for such domestic matters as the administration of justice, which is the best way to safeguard individual liberty in the region. The Caribbean Basin Initiative of 1984 provides additional evidence of the consistency of the U.S. determination to support democratic reforms.

II. Japan-U.S. Structural Impediment Initiative.

The most salient features of recent trade relations include a tendency to view one's trading partner's economic system and commercial practices as "problems," and a tendency for friction to arise not only over goods but also over services.¹³

To describe the ongoing problem between Japan and the United States in short, the United States views Japan's economic system and commercial practices as problems. In this regard, the U.S.-Japanese Structural Impediment Initiative Talks, which were initiated in 1989, are significant in that both parties began to discuss domestic structural matters in detail.

Traditionally, trade talks between Japan and the United States were, in the word of Holbrook, U.S. Assistant Secretary of State for Eastern Asia and Pacific Affairs, "pathological repetition" of the following:

1. The U.S. would identify a specific trade problem and raise it with Japan.
2. Japan would respond that it was not much of a problem, or there was little that could be done but they would try.
3. Time passed. Nothing happened.
4. Urged and egged by the Hills, the U.S. would escalate it to the very brink of a political breach.
5. An agreement was finally struck, which the U.S. viewed as inadequate, and Japan viewed as the result of totally unjustified public bullying that has taken place without due regard for its concerns and problems.¹⁴

13 White Paper of MITI, White Papers of Japan 1984-1985, p.91.

14 Before the Japan Society, New York, November 21, 1980, Basic Documents 1977-1980, p.1040.

In macroeconomic terms, Japan has successfully managed to boost its domestic demand, and has reduced its overall trade surplus remarkably from \$96 billion in 1987 to \$34 billion in 1989. It is, however, still relatively large, and there is a prediction that its surplus with the United States is likely to increase again. Nonetheless, that is not the real issue anymore, at least for the moment. The United States has put off an immediate solution to its trade deficit with Japan. Its urgent task is to put an end to the pathological repetition of negotiations, and have Japan really open its market in the way defined by the United States. The United States threatened to apply the Super Article 301, the most protectionist measure of its Omnibus Trade law of 1988, if the negotiations failed to reach a substantial settlement. Unlike its 1974 version, which could be applied only against particular products or companies of a country, the Super Article 301 permits a retaliation against the entire country, if the U.S. Trade Representative finds the country guilty of being unfair to the United States. In other words, if Japan continues to export as much as it has and yet not increase its imports from the United States, and if there is a good reason for the U.S. to label Japan unfair, the United States can legally retaliate against Japan entirely.

The following is a close study of the specific details that the two parties at the SII Talks pointed out about each other's domestic industrial structures. The United States

has taken the lead throughout the conference so far, to which Japan would either explain or refute, and more often than not, their points of view did not converge.

Points the U.S. made about the Japanese structure

The United States summarized its points in six interlocking categories: price mechanism, distribution system, investment and savings, land policy, Keiretsu, and exclusive business practices. We shall examine each category in order of the American argument, the Japanese response or explanation, followed by a general discussion to supplement the arguments.

(1) Price mechanism

A survey conducted by the U.S. government indicates that consumer price in Japan is by and large higher than that in the United States. The United States reported 52 specific Japanese products as an example of products that are priced higher in Japan than in the United States. It emphasized that it spoke for the Japanese consumer, who did not share the benefit of the appreciated yen. The Japanese industrial structure is designed to protect the producer, neglecting the interest of the Japanese consumer, and therefore the price cannot be determined with priority to the consumer. Subsequently, the high consumer price in Japan forces foreign companies to price their products higher.

A survey conducted by the Japanese government, on the other hand, indicated that there was little difference between at home and abroad in the price of products made in Japan. As for highly priced products, Japan explained there were rational reasons that the United States simply failed to understand. Japan promised to look into the cause of the high price of imported products.

It should be pointed out first that Japan's prosperity owes much to the people's tolerance for the discrepancy between price at home and abroad.

According to an OECD survey, the consumer price in Japan as of June 1989 is about 40% higher than that in the U.S. Another survey shows that the average living cost in New York is 72, and in Hamburg is 68, compared to 100 in Tokyo. Energy, hydro and housing costs are particularly high in Japan. The price of rice is usually three to five times more expensive in Japan than the world market price.¹⁵

(2) Distribution System

There are so many administrative regulations, which make the Japanese distribution system process two to three times longer than the American counterpart, that the market mechanism does not function properly.¹⁶ The United States

15 Yasuyuki Tonoike, 1990: Sekai no Ugoki; Nihon no Sentaku (Tokyo: Paru Shuppan, 1989), p.91.

16 One out of five working population in Japan is engaged in distribution, compared to one out of ten in the U.S.

specifically named Large Retail Store Law, which it wants to have abolished, and the Truck and Aero Transportation Law as excessively strict regulations. It pointed out the inadequacy of the facilities and infrastructure of air transportation, harbors, and highway networks in Japan, and proposed the early completion of new airports that are under plan. Business practices such as consignment sales were also named as impediments to an efficient distribution and the participation of foreign business. The United States proposed as a solution that Anti Trust Law be strengthened against companies that are unfair to foreign participants.

In regard to these claims, the Japanese government explained that it was considering a policy called Distribution Vision 1990, which includes revision of some relevant regulations, and setting of guidelines for a more strict implementation of Anti Trust Law. Nevertheless, it argued that the Japanese distribution system was generally as efficient as its American and European counterparts.

To be more specific about the Japanese distribution system, there are eighteen administrative regulations including permission, authorization, license, approval, designation, acknowledgement, confirmation, verification, certification, registration, and notification. Each one of them concerns a vested interest of different industry and

Chikara Higashi, G.Peter Lauter, The Internationalization of the Japanese Economy op.cit, p.39

its link with the ministry that has the authority. For example, Large Retail Store Law, the very law in question, entrusts MITI, the Ministry of International Trade and Industry, the authority to oversee the activities of big enterprises in order to protect small- and medium-sized enterprises, or, as the United States calls them, mom-and-pop retail stores. Under Article 10, MITI can advise a big enterprise to cease its business activity concerned, if it recognizes a potential that such an activity may affect negatively the maintenance and promotion of small- and medium-sized enterprises located nearby.¹⁷ (See Graph II in the Appendices for a comparison of the distribution structures of major advanced industrial nations.)

(3) Investment and Savings

The United States pointed out that an increasing amount of Japanese capital was flowing into money and stock markets overseas through banks, insurance and security companies as Japan Money. The United States demanded that Japan make use of its capital for the improvement of its infrastructure, and, for this purpose, raise its expenditure for public

¹⁷ The law stipulates that a large retail store is 500m², and 1,500m² in districts with government ordinance. After the third conference held in March 1990, Japan expressed to the U.S. its intention to consider revision or abolition of the law. Nevertheless, the Organization of Small- and Middle-sized Enterprises in Japan is determined to protest against any mitigation of the law. An LDP member commented at a press interview in Japan that the abolition of the law would destroy the whole community of small- and middle-sized enterprises.

works up to 10% of its GNP in three to five years, such as parks, highways and sewage.¹⁸ It was suggested that the Japanese government turn to the social security fund for a financial source. As to private spending, 24-hour operation of cash dispenser machines was recommended to facilitate cashing.

In response to the American suggestion, Japan pointed out that Japan's savings rate was actually declining at a steady pace, as the younger generation had a proclivity to spend more than older generations. It instead suggested that it was the United States that really had to correct its investment/savings balance (see Table VI.) As to public works spending, Japan denied the criticism saying that its expenditure for public works was higher than other advanced nations. Lastly, it explained that the social security fund was not applicable for other purposes, because it was a provision for the future.

Table VI. The Savings Trend in the U.S. and Japan

1. Gross Savings/GNP:

	1960s and 1970s	1987
U.S.	14.8% - 10.1%	14.8%
JAPAN	27.1% - 32.9%	28.2%

Source:

Samuel P. Huntington, "The U.S. - Decline or Renewal?" Foreign Affairs (winter 1988-1989), p.85.

18 In 1989, Japanese government expenditure is 38.8% of GNP, 18% of which is for public works. In other words, public works-related expenditure currently accounts for 6.78% of GNP. Isamu Miyazaki, Nihon Keizai Zuzetsu (Tokyo: Iwanami Shinsho, 1989), p.146.

2. Household Savings/ Household Disposable Income:

	1978	1987
U.S.	9%	6.3%
JAPAN	21%	18.3%

Source:

Bank of Japan, "Comparative International Statistics,"
Japan: An International Comparison, p.86.

Many in the United States assume that Japanese import of manufactured products will increase as a result of smaller investment for production. In this way, the increased domestic demands not met by increased domestic production capability will lead to more imports from the United States.

(4) Land Policy

This is the very root of Japan's structural problems. The high cost of land and housing needs an urgent remedy, which requires an improved supply-demand balance. As a way to increase the supply of land, the United States proposed a relaxation of Japan's City Planning Law, and a tax reform. The proposals for the latter were: 1. equivalent taxation upon farmland as residential land, 2. relaxation of land transfer tax, 3. reinforcement of fixed property tax, and 4. abolition of tax exemption on farmland in urban areas. For future implementation of efficient land supply, the procedures of decision-making should be rationalized, and the authority should be centralized in one agency.

Japan had absolutely nothing to refute in regard to the criticism by the United States. It explained that the

proposal for the Basic Land Law had been submitted to the Diet, and the government had already set out to investigate matters concerning land reforms.

Just how high is the cost of land in Japan? In acreage terms, Japan is 1/25 of the United States, but in price terms, one could buy 12 Americas by selling one Japan. Other data show that the land assets ratio of GNP in the United States is 25%, while that of Japan is 66.2%. Under these circumstances, the existing industrial structure in Japan is designed in such a way that the high cost of land provides smooth money supply.

It will be definitely disastrous for not only Japan but the United States, if the land price is carelessly lowered. Japanese companies would start selling their land because of its diminished value as security, which would result in a slump in the stock market. They would then start selling the land and stocks they possess in the United States. In consideration of the large amount of American stocks held by Japanese, that would possibly cause serious economic chaos in the United States as well.

(5) Keiretsu (Conglomerate)

The United States pointed out that transactions and cornering¹⁹ as well as personnel arrangements within

¹⁹ Cornering is a virtual monopoly of certain goods or services, enabling the holder to control the price.

Keiretsu obstructed the participation of newcomers in the Japanese market. Keiretsu corporations should, therefore, regularly disclose the information concerning these matters. Keiretsu also makes mergers and acquisitions in Japan difficult. Corporations' procurement of products and services must be determined by, not the business relationships in the past, but by price, quality of products, and after-service.

In response, Japan denied the criticism and provided evidence of increasing purchase and sale transactions between Keiretsu and non-Keiretsu companies. For instance, Nissan and Isuzu procure about 40% of their automobile parts from non-affiliated companies. Japan also pointed out that there were conglomerates in the United States, too. In respect to stock cornering, Japan replied that there was not much that can be done, because the government was not supposed to regulate the acquisition of stocks, i.e., who owns the stocks must remain free. As to mergers and acquisitions in Japan, Japan regretted that not many American companies seemed interested in spite of a number of opportunities in Japan, and questioned if American corporations were really serious about M&As in Japan.

In general, the Keiretsu system seems to be exaggerated abroad. A survey shows that inside-Keiretsu transactions

are not predominant at all. The average percentage of inside-Keiretsu purchases is 11.5%, and sales 4.6%.²⁰

(6) Exclusive Business Practices

The United States criticized the Japanese business community for having a host of commercial practices in Japan that made it difficult for foreign companies and even Japanese newcomers to participate in the competition. Those specifically pointed out were Dango (group boycott), cornering, long-term supplier-customer relations, licensing and patent systems, such as Liquor Sales Law and Pharmaceutical Law. The United States argued that these were all violations of the rules of free competition.

Japan's Ministry of Construction and Fair Trade Commission was investigating impediments allegedly caused by Dango. Japan, however, went on a defense by pointing out that trust developed through long-term supplier-customer relationships was an important contributor to corporate competitiveness. Japan also explained that licensing and patent systems were very important for the government in order to fulfill its responsibility to guarantee safety and quality to protect the Japanese consumer.

²⁰ The Internationalization of the Japanese Economy, op.cit., p.40.

(7) Other points

Other criticism by the United States included the long working hours and inconvenient access to resort areas, which the United States presumed discourage leisure developments. To some extent, such criticism is understandable. In 1987, the average working hours per year were 2111 hours in Japan against 1924 hours in the U.S.²¹ It must be remembered, however, that a majority of Japanese are forced to work rather than workaholic in order to make ends meet. This problem, therefore, is intertwined with the problem of the high cost of living in Japan.

The Japanese claims

Japan was prepared to point out some of the problems in the American structure.

First, as noted earlier, Japan proposed that the United states work to correct its insufficient savings and excessive consumption. Secondly, drawbacks of the American corporate activities were pointed out. In the Japanese opinion, the high interest rate in the United States makes corporate financial sourcing costly, causing insufficient investment for production facilities and equipment. Insufficient investment in production is also attributed to 1. the short-term-profit-oriented business management in the U.S., which gives priority to high dividends for

21 cf. The average for West Germany is even lower, 1655 hours.

stockholders, and 2. increasing number of hostile M&As, which pressure corporate finance. Thirdly, Japan claimed that the U.S. government was too strict on its export control. Particularly, the abuse of Anti Trust Law and COCOM regulations obstructs healthy corporate competition. For example, Japan proposed that it was necessary for the government to provide continuous assistance and guidance for the promotion of joint research and development, and to relax its excessively strict implementation of Anti Trust Law.²² It was proposed in this connection, that the United States should consider the full adoption of the metric system in industrial and scientific fields. Fourthly, Japan urged the U.S. government to work systematically to promote exports and encourage American companies to make greater effort in marketing in Japan.

Japanese experts such as experienced businessmen and business consultants share the same view with their government. They point out that the failure of American businesses to succeed in the Japanese market is, in many cases, not caused by the quality of their products but their ineffective marketing practices. They say that the absence of marketing effort dates back to the early postwar period, when the United States dominated almost half of world GNP and did not have to think hard about how to export their

22 Research and development expenditure/GNP:
Japan ...2.52% U.S. ...2.7%
Government support including and excluding defense:
Japan ...0.58% (0.56%) U.S. ...1.27% (0.57%) Nihon Keizai Zushetsu, op.cit., p.79.

products. For example, few American automobiles exported to Japan are adapted to the Japanese traffic system, which is the opposite of the American system: their driver's seats are still on the left side. Another example is that many American companies do not care to make leaflets in the Japanese language.²³

Traditionally committed to minimum government interference and maximum liberty of private enterprises, the overall U.S. export promotion spending is less than any other major advanced industrial country. Today, however, American exporters, particularly small- and medium-sized ones that are always short of funds, complain, "our government is not on our team, and is not even coming close to doing what other governments do."²⁴ The bottom line is the lack of export financing. In Japan, which must boost its imports, MITI raised its budget for the promotion of imports from \$13.5 million in last fiscal year to \$54 million. MITI hopes to put into effect a set of import-promoting measures in the next five years. They include:

1. tax credits for Japanese companies that import;
2. cutting tariffs on 1,004 industrial goods;
3. providing funds for import fairs in small shopping areas; and
4. setting up an "import claim hot line" in the United States.²⁵

23 Business Tokyo March 1990, pp.16 and 41.

24 "America's Export S.O.S.," *ibid.*, p.29.

25 "MITI Wants to be Your Friend," *ibid.*, p.44.

In the United States, on the other hand, where exports must be boosted, both officials and exporters are frustrated with the deficient funds for the promotion of exports to Japan. In the case of the Export-Import Bank for instance, its largest program, the Foreign Credit Insurance Association, insures 2% (\$4.4 billion) of the total exports against non-payment, compared to MITI's 25% (\$66.2 billion). In pursuit of budget savings, loans were cut down to a meagre \$600 million from \$5.5 billion back in 1981. Moreover, agricultural products, which account for only 12% of the total American exports, command 59% of the total export-promotion budget. Similarly, the U.S. and Foreign Commercial Service (U.S.&FCS), the primary government agency assisting American businesses in entering the Japanese market, is financially frustrated. The U.S.-related budget of its Japanese counterpart, the Japanese Export and Trade Organization (JETRO), is estimated at \$14 million for fiscal year 1990 and it has seven offices throughout the United States with 147 staff members, half of which are Japanese. U.S.&FCS receives \$4 million and has offices in Tokyo and Osaka, with 47 staff, 37 of which are local staff. They cannot travel to important regions, cannot conduct necessary pre-export research on Japanese markets, and cannot return long-distant phone calls all because of financial deficiencies. The U.S. government does not even co-sponsor JETRO's trade seminars in the United States.²⁶

²⁶ "America's Export S.O.S.," *ibid.*, pp.30-31.

Finally, Japan suggested that the U.S. government should promote the improvement of 1. the education system at the elementary and high school level, particularly in science and mathematics, and 2. corporate training and education for employees about the countries to which their products are exported.²⁷

Summary

In the beginning, the Bush administration was not expecting Japan to come up with a set of substantial policies immediately. It was looking forward to seeing an interim report coming in the spring of 1990, in which the Japanese government would at least admit that the U.S. points about structural problems and impediments in the Japanese market had some validity. Now that the general election in Japan is over, the attitude of the United States has become unrelenting and uncompromising. The Bush administration will be more pro-Congress, i.e., more impatient with Japan, and urge Japan to take a bold initiative, as the fall election in the United States draws near.

²⁷ The U.S. first responded that the federal government cannot play an active role, because education policies are left to the discretion of individual states. Recently, however, the Bush administration announced national educational goal for the first time. The goals include: by the year 2000, American students will be No.1 in the world in math and science, every adult will be literate, and every school will be safe.

The difference in the opinions is most clear in their points of view about regulations. The United States suggests the deregulation and relaxation of strict regulations in Japan which control the freedom of business activities. In sharp contrast, Japan points out that the U.S. economy is in need of more systematic administrative guidance and control, and frequent communication between the government and the private sector. Their suggestions concerning Anti Trust Law is an interesting example. The U.S. government places its weight above all on the freedom of competition, and demands revision of Japanese Anti Trust Law to reinforce the authority of the Fair Trade Commission to punish both companies and individuals who conducted unfair business practices. Japan places as much weight on the broad national interest as on the freedom of enterprises. The Japanese government has long legitimized trade barriers and restrictions which permitted competition only among domestic corporations and excluded foreign competition.

If the traditional Japanese economic system is really the cause of impeding foreign competition in Japan, it will take a comprehensive and revolutionary structural reform. The firm tie between government and business and the long-standing, institutionalized business ties and practices will have to be loosened, and that will affect a number of vested interests. That is, however, just what the United States wants to see happen, because it believes that breaking these

institutions in Japan is the only way left to open the Japanese market.

III. Revisionism

Scholars, economists, and journalists who study United States-Japanese relations in the 1980s have written extensively about the contrast between American and Japanese values and the consequent relationship to business practices in both countries. While many of them appear to do so for the purpose of deepening mutual understanding between the two peoples, there is a small group of people who discuss these differences in order to urge Americans to revise their approach towards Japan. They are called revisionists.

Revisionists argue that Americans must take a much sterner stance against Japanese, such as that taken against the Soviets, because the Japanese economy and society work in quite a different way from the rest of the world's advanced democratic nations. This argument has provided a convenient excuse for those who prefer blaming Japan for their failure to succeed in Japan, or who think they lost their jobs because of the Japanese.

Background

In order to facilitate our understanding of the revisionist argument, we need to take a look at some of the

most often discussed institutional differences between Japan and the United States. We must be aware that the following argument is a mere generalization and that not all Japanese and American corporations fit in this generalization.

- Company-employee relationship -

Many Japanese corporations consider a cooperative company-employee relationship one of the most important factors for maximizing efficiency and productivity. Such a relationship can develop through job security. The Japanese traditionally considered it despicable to change one's job, and companies have taken it for granted that they have the responsibility for taking care of not only their employees but also their families. Wearing the same uniform regardless of rank encourages the employees to feel that each of them is what Japanese call "a part of the cogwheels" which drive their companies. Secured and motivated by trust and life-time employment, employees are less likely to go on strikes (see Table VII), and more likely to make innovation to keep their companies strong and competitive.

American management of manpower is generally more conflictual. Many Japanese have an impression that American companies treat their employees like a tool to make profit.²⁸ Generally seeking to make profits as their primary goal, American companies more easily lay off their

28 Chuokoron January, 1990, p.82.

employees when the business does not yield adequate profit, while top executives usually have "golden parachutes."²⁹ The range and diversity of employer-employee relationship in the United States and the role of unions must also be taken into account.

Table VII. Days Lost in Labor Disputes (1981-1987)

(1,000 man-days)

	U.S.	JAPAN
1981	16,908	543
1982	9,061	535
1983	17,461	504
1984	8,499	354
1985	7,079	257
1986	12,140	252
1987	4,481	256

Note:

- 1.) Labor disputes, as a rule, involve protest action.
- 2.) The Japanese figures include days of dispute involving protest action and factory closure.

Source:

Bank of Japan, "Comparative International Statistics, 1988," Japan: An International Comparison, p.71.

There was a time, about ten years ago, when many American managers tried to learn from Japanese management, and began to rethink their company-employee relationships. According to a recently published study of the Massachusetts Institute of Technology, Made in America, American companies that have successfully recovered their competitiveness, for instance Ford, had done one thing in common; their new strategy focused on the teamwork of employees, which is quite similar

²⁹ Internationalization of Japanese Economy op.cit., p.48.

to Japanese traditional management.³⁰ Yet, some of the methods did not work in the United States. They stem from the basic differences in life styles, and some are intolerable to Americans who work with Japanese. For example, many American employees cannot understand a concept of leisure as a part of business, which older Japanese businessmen are prone to have, and the Japanese tolerance towards overtime working and night shifts.³¹

A survey of American businessmen of Japanese-affiliated U.S. manufacturing firms, which was conducted by JETRO, demonstrate an intriguing contrast of opinions between American and Japanese managers and employees. Japanese managers say that American employees are too eager to take days off, have less loyalty to their companies and resist changes to improve production, and yet they still want to be coddled and praised. American employees, on the other hand, complain that their Japanese managers are reluctant to praise them even when praise is due and criticize them too often. The Japanese complain that many of their counterparts lack just-in-time approach to work, and say that it is another disadvantage of America. "American suppliers won't keep a strict schedule, or if they do, up goes their price." Interestingly, the Americans claim in

30 Chuokoron op.cit., pp.82-83.

31 Top executives in American corporations are exceptions. They work hard day and night, and even take their work home.

sharp contrast that their Japanese managers treat them like just-in-time parts, and have little feeling for people.³²

- "Ten Minutes vs. Ten Years" and Market Mechanism -

The well-known chairperson of Sony worries that if American business continues to see only ten minutes ahead, the American economy will definitely slump.³³ Japanese companies reinvest in the research and development of their products in anticipation of profits in years ahead, even if it means a loss of profits in the immediate future. Keiretsu may reduce the possibility of takeover and make it easier for companies to pursue a long-term strategy without worrying about it. Trust between company and employees based on life-time employment may be another important contributor.

Differently, American companies tend to pursue short-term profit in order to pay high dividends to their stock holders. Some Japanese observers even maintain that Americans forgot that money firstly facilitates the speedy exchange of tangible produced goods and intangible services. As the American economy is primarily consumer-oriented, the United States prefers to buy from other countries, if their products have comparative advantage in quality and price over domestically produced goods. For example, television set and automobile markets, which used to be dominated by

32 Business Tokyo op.cit., pp.24 and 26.

33 Aki Morita, Shintaro Ishihara, "No" to Ieru Nihon (Tokyo: Kobunsha, 1989), p.22.

American companies, were significantly penetrated by those manufactured by Japanese companies. In the American view, that was how the liberal market mechanism is supposed to work.

Since the late 1970s, however, many American manufactured products have lost their comparative advantage to such a degree that related jobs were threatened in the United States. The U.S. Congress was quick to relate to trade problems associated with unemployment, because it was politically appealing to talk in favor of protectionist measures to limit imports from Japan.³⁴ Nevertheless, the reputation of the quality of Japanese manufactured products has been established, and many American consumers choose Japanese products over American, in spite of the now higher prices.

Revisionist Argument

Although officials in both Japan and the United States seem to pay little attention to it, revisionism has given a plausible alternative to the impatient American public who believe that its government should be more aggressive in dealing with the Japanese government.³⁵ One revisionist

34 Internationalization of Japanese Economy op.cit., p.52. The U.S. department of Commerce estimated in 1984 that \$1 billion loss of export reduced employment by approximately 21,000 jobs.

35 To name some active revisionists, James Fallows, the Washington editor in chief of the Atlantic Monthly, Karel G. van Wolferen, a correspondent in the Far East for a Dutch paper Handelsblad, Chalmers Johnson, a professor at the

even argues that the U.S. government must "decide quickly on a measure constituting a Japan policy that must necessarily contain ingredients that diverge widely from accepted diplomatic practices between countries at peace."³⁶

Revisionists enumerate many cultural and institutional differences between Japan and the rest of the Western capitalist advanced nations for the purpose of proving the incompatibility of Japan with the latter. Revisionists characteristically claim that the Japanese socioeconomic system is a troublesome system that "belongs to neither Western capitalism nor the Soviet type of Communist economic system," which Chalmers Johnson labels as Capitalist Development State.³⁷ For instance, Fallows contends that the cooperative company-employee relationship in Japan discussed earlier put the function of international market competition out of order. Because of the relatively compromising stance of employees in Japan, the wage increase can often turn out to be lower than the productivity increase, which enables the price of Japanese products to remain cheaper than foreign products. As a result the U.S. government was forced to take protective measures for its industries.³⁸

University of California, San Diego, and Clyde Prestowitz Jr., a former official of the U.S. Department of Commerce.

36 Karel G. van Wolferen, "Japan Problem," Foreign Affairs Vol.65, No.5, (Spring 1987), p.301.

37 Ibid., p.288.

38 Bungeishunju January 1990, p.150.

A pro-revisionist member of United Automobile Workers (UAW) says that American automobile and autoparts workers are turning their anger towards the U.S. government and their managers as well, because they are not well-protected like their Japanese counterparts. At the same time, he believes in a preconceived idea that the Japanese government, corporations and unions are all united in their pursuit of one goal, a goal to protect the interest of the nation. He says, "it is unthinkable in the United States, where the social value is based on individualism."³⁹

Similarly, Wolferen argues:

The essence of the problem is not that Japan exports much more than it imports, but its exports systematically undermine Western industries. Peter Drucker calls this adversarial trade as distinct from competitive trade whereby a country also imports manufactured products of the same kind as it exports.⁴⁰

He defends the United States by saying that it is hardly to blame, because Japan has deceived other nations by presenting itself as simply another member of the community of democratic nations committed to the free market. He also maintains that a small number of selected foreign companies are paid to serve as fresh examples of Japan's openness.

The Japanese government and corporations hire the best lawyers and former administration officials to defend their position in Washington, and provide funding for academic research on Japan by American scholars, whose bread and butter is defending Japan.

39 Asahi Shinbun February 28, 1990.

40 "Japan Problem," op.cit., p.288.

He even claims that Japan's successful economy is, for many Western economists, tantamount to "heresy."⁴¹ Finally, having particularized Japan and generalized everything as the "Japanese System," he argues that:

only action that specifically singles out Japan will imbue the Japanese System with the sense that the situation has become intolerable for the United States.⁴²

Another characteristic of revisionism concerns mutual understanding. Revisionists maintain that Americans who have lived in Japan long enough to learn the language and a lot of other things about Japan are the last kind of people who can be trusted in terms of making a Japan policy. Fallows calls such people as Mike Mansfield, who retired after eleven years of ambassadorship to Japan, "Japan Handlers." In his opinion, they tend to be too sympathetic to Japan, and therefore they are not capable of making a rational and patriotic judgement on the U.S. Japan policy.⁴³

Summary

From an objective point of view, revisionism is 1. a comprehensive summary of certain Americans' honest but preconceived perceptions about Japan, and 2. exaggeration of Japan's uniqueness only to draw the American public's attention. Its argument is partly based on facts, but does not really yield a constructive conclusion that may be

41 Ibid., pp.293, 299 and 303.

42 Ibid., p.302.

43 A critique by George Packard, Bungeishunju January 1990, p.96.

helpful to the solution of U.S.-Japanese frictions. In the meantime, it must be added, many Japanese unknowingly concur with revisionists. Firstly, Japanese themselves produced their image of uniqueness. Secondly, their reaction is one of a persecution complex without any intellectual and logical refutation.

In a world where cultural differences cause distraction and, with little patience, hostility, revisionistic ideas can be harmful to friendships between nations that have been cultivated over decades. The result of an American poll showed that the American public feels more threatened by the Japanese economy than by Soviet military power, and it is feared that revisionism may have unnecessarily provoked hostility in the public of both the United States and Japan. Such hostility may eventually threaten the generally friendly U.S.-Japanese relationship. The Economist unhesitatingly warns that such revisionistic ideas encouraging differential treatment of Japan are "mistaken premises that yield a misguided and damaging conclusion."⁴⁴ Both the United States and Japan must see to it, therefore, that revisionism remains a mere reference in a logical discussion, and does not spread in the public as an irresponsible logic that only aggravates the already existent emotional resentment towards each other.

44. The Economist November 18, 1989, p.15.

IV. Conclusions

The three case studies in this chapter give substance to the difference between Japanese and American concepts of interdependence clarified in Chapter 3.

The diversification and increased disbursement of Japan's Official Development Assistance have served to secure Japan's lifeblood, oil and other vital energy resources, thereby reducing Japan's sense of dependence on developing countries. It also helps Japan to fend off the criticism from other advanced nations that Japan does not meet their expectation for the redistribution of its economic wealth. In this way, Japan has sought a position where it can be more immune to external constraints in return for economic assistance. For the United States, on the other hand, foreign assistance is a part of its global strategy to achieve its goal of universalizing democracy and capitalism, which will ultimately be in its interests. The United States is fully aware of the frailty of these democracies, and for this reason it encourages democratic reforms of their societies. Thus, such an interdependent relationship with developing countries enables the United States to expand the sphere of its political and economic influence in return for the provision of military and economic assistance.

The purpose of studying the case of the Structural Impediments Initiative talks was to specify the penetrative aspect of the American concept of interdependence. In the

American concept, what used to be absolutely an infringement of Japanese sovereignty is justified under the existing circumstance of U.S.-Japanese economic interdependence. Although the talks were a two-way negotiation in principle, the United States apparently took the upper hand, and vehemently picked at every detail of Japanese domestic structure which the United States considered incompatible with its ideal of free and fair competition. In the American concept of interdependence, the United States has the right to point out the problems that exist within the Japanese economy, and demand changes if they are proven to be detrimental to the interest of the United States. Japan attempted to be equally aggressive. It was, however, obviously much too occupied with preparing for responses to the overwhelming 200-plus American proposals to do more than scratch the surface of American domestic structure. Moreover, half of the Japanese proposals were for those problems that the U.S. government had already recognized as important issues. Rather, Japan took up the defensive, because a nation's sovereignty is still inviolable, according to the Japanese concept, even in a deeply interdependent relationship, and the government continues to hold the authority over its domestic affairs.

SII being an official approach, the argument of revisionism is a personal approach to deal with Japan. A handful of people's personal perceptions about the Japanese market and society have been widely presented as a better

Japan policy and had a sensational appeal to the American public. It has provoked some emotional and irrational reactions among the Japanese public as well. Revisionism views Japan as wanting other nations to accept it as it is. From the revisionist point of view, however, Japan is so different that a harmful effect could be caused upon the international free trade system by an unavoidable conflict between the United States and Japan. Labelling Japan as distinctively different from the rest of the international community is, therefore, the only way to prevent such an effect.

In general terms, it can be concluded that these three cases accurately demonstrate the difference between Japanese and American concepts of interdependence: the Japanese self-protective stance in an attempt to maintain its autonomy, and the American confidence in the universality of American ideals and its power to urge changes in others' policies.

CHAPTER FIVE. CONCLUSION

This thesis began with a single simple question: Both Japan and the United States have no doubt that they live in a world of interdependence and both describe U.S.-Japanese relations as inextricably interdependent. Do they, however, share the same view on U.S.-Japanese interdependence?

We postulated that there is a fundamental difference between the Japanese and American concepts of interdependence and that this difference is one of the major causes of the heated U.S.-Japanese economic friction over the last decade. In order to prove this postulate, we have examined the two concepts of interdependence by analyzing the public documents related to the postwar U.S.-Japanese relations, and applied it to three selected cases involving both the United State and Japan.

In Chapter 1, we concluded that interdependence has been, for Japan, (1) a term to obscure its sense of dependence on the United States, (2) an opportunity to demonstrate its importance to the United States and other nations, (3) an inevitable circumstance, whereby Japan had to spread its high vulnerability in energy supplies, and (4) the international political-economic condition where different systems and values co-exist and co-prosper. Japan, however, has always strived for a decision making free of foreign government interference.

Faced with a relative decline in its power, the United States viewed interdependence as an opportunity to dissuade its allies from becoming too independent from its influence. In order to retain its power position, linkage strategy was particularly effective for the United States when Western Europe and Japan were constantly reminded of the potential Soviet military threat, from which the United States was the key actor that could provide the perceived necessary protection. Thus, after the breakdown of the "two-track" system, in which finance and military issues were handled separately among the Western allies, it was the United States that most frequently demanded the linkage of issues.¹ There was a shift in the relationship among Western advanced nations, and the United States shared with its allies the responsibility in sustaining the international economy and protecting freedom, but tried to keep its overall strength intact.

Historically, Japan has been tremendously aware of, and sensitive to its external constraints, but the experiences did not make Japan politically adept. Japan is surrounded by three major powers, China in the east, the Soviet Union in the north, and the United States in the west. The Oil Crises added another major external constraint. Japan was inescapably involved rather than committed to international politics. The United States, on the other hand, had less external constraints. At the end of the Second World War, it

1 Power and Interdependence op.cit., 123.

was virtually the only nation which had the capability to be the leader, and to provide other nations with assistance for their recoveries from the war. In this sense, the United States was also involved in international affairs. Nevertheless, as has been emphasized in the previous chapters, the United States was soon driven to lead the Western nations by demonstrating the attractiveness of liberal democracy and the free market economy. It had little to lose from opening its market, while in return benefiting tremendously from market opportunities created by decolonization after the war. Once the essential rules governing international economic relations were established in the way the United States desired, the United States did not have to exert overt influence in order to achieve a favorable outcome.² Economic interdependence triggered a shift in the relationships between the United States and economic powers, but did not affect its zeal for global leadership and commitment, both politically and economically.

In the bilateral relationship with Japan, the United States has often made use of the high asymmetry in their relative power relations - the small self defense capability of Japan and its vulnerability to a threat of economic sanctions by the United States - to obtain economic concessions. Many Americans today, however, claim that the

² Bruce Russett, "The Mysterious Case of Vanishing Hegemony; or, Is Mark Twain Really Dead?" op.cit., pp.217-18.

United States has been too "kind" in making concessions to Japan, and in effect the United States has created an economic monster out of Japan. Moreover, the United States began to view Japanese business practices as being incompatible with its own.

The previous chapters demonstrated some of the complexity arising from U.S.-Japanese interdependence. Nowadays, major American and Japanese manufacturers have production facilities overseas, and components of their products are often made in more than one country. That means, sales of American products bear a significant degree of responsibility for the lives of not only American workers but also workers of other countries. The same is true for Japanese products. Decline in the sales of Japanese manufactured products, for example, subsequently affects the markets in Asian Newly Industrializing Countries, which have extremely close economic relationships with Japan, and their followers such as Thailand and Malaysia. Fluctuation in the exchange rates are immediately reflected in the profits. Changes in the interest rates, too, have a global effect. Japan kept cutting its interest rate from 5% to 2.5% between 1985 and 1987 in order to support the demand for American dollars and to sustain the U.S. economy. We discussed the global implications of Japanese direct and indirect investment in the United States. Given the risk of potential loss that spills outside the bilateral relationship, we are inclined to assume that the United

States and Japan share their destinies. When industries, however, perceive a major threat to their interests from foreign competition, they consider the situation as a conflict of national interests rather than a sheer capitalist competition. The borders, in this way, suddenly stand out. Those who used to oppose government intervention make a complete turnabout and plead with their government for protective measures. Caught between internal and external constraints, the government does not always act on the principles of economic rationality. This characterization of interdependence is particularly true in recent U.S.-Japanese economic relations.

Economic Interdependence and Psychological Interdependence

President Bush invited Prime Minister Kaifu to Palm Springs, California, in March 1990, to make sure that the Prime Minister would do his best to encourage his government to make a bold decision on socioeconomic structural reform. The Prime Minister stated that it was time that Japan began to work hard for the interests of its consumers. Returning to Japan, Kaifu tried to encourage the public that their endurance of the pain which accompanies such structural reform would eventually be in their own interests. On his part, the President recognized that it was important for the United States to address some of the things Japan had pointed out about American structure during the Structural Impediment Initiative talks.

The results of the fourth round of Structural Impediment Initiative Talks is the following.

Japan has agreed:

1. to revise its Large Retail Store Law and implement it in three years, but there is no indication that the law will be abolished;
2. to increase its public works spending;
3. to carry out a more rigid implementation of Anti Trust Law and increase fines for those businesses that violate these laws;
4. to ease restrictions on foreign investments in Japan; and
5. to provide better market access for American construction companies, satellite, telecommunication, and forestry products, upon which an agreement was finally struck after a one-month prolonged negotiation.

The United States has agreed:

1. to reduce government spending without raising taxes;
2. to eliminate the restrictions on sales of Alaska's oil to Japan; and
3. to repeal the capital gains tax.

This thesis has revealed that both Japan and the United States are basically reluctant to change. Japan has somehow managed to deal with its external constraints while minimizing changes in the centuries-old socioeconomic structure in its homogeneous society; the United States wanted other nations to change and saw few reasons to change itself. These factors seem to largely contribute to the

recent U.S.-Japanese structural problems. The significance of this interim agreement summarized above is the recognition of both the United States and Japan that changes in their respective structures are inevitable.

Nevertheless, structural reforms will not likely calm down the heated friction immediately. From what we have discussed in Chapter 4, chances seem dim in the immediate future that Japan can be entirely free from the image associated with unfairness and economic threat. The problems with current U.S.-Japanese relations are not simply matters of finance and trade. It is so because the public on both sides of the Pacific tend to imprudently fall prey to a stereotype of one another based on a single conspicuous fact such as working hours and the U.S.-Japanese trade imbalance. There is an enormous discrepancy between the speed of economic interdependence on one hand and the speed of "psychological interdependence" on the other, for human nature cannot always keep up with the force of economic rationality in the modern world. Moreover, stereotyped images often distort the understanding of real issues and the overall picture of U.S.-Japanese relations. The Japanese economic threat to American mentality is typical in this respect. When asked the question "how much of American real estate do you think are foreign assets?" three quarters of

the responses were 5 to 15%, whereas the actual figure is only 0.5%.³

Japanese Global Leadership?

Japan has neither the intention nor the capability to be a global leader due to a combination of its limited power and several other factors.

Ever since Japan became an economic power, the United States and also the international community have expected three things from Japan:

1. greater financial support for developing countries to achieve self-sustaining economies;
2. greater responsibility for its own defense in terms of conventional warfare; and
3. self-recognition as a mature industrialized economy.

Japan has made significant progress in meeting these expectations. It is no longer appropriate to call Japan a "free rider," as Japanese defense expenditures rank third or fourth depending on exchange rates, and its Self Defense Forces are equipped with first-class military technology.⁴ Japan assumes on average the second largest financial cost for the operation of international organizations such as the United Nations, World Bank, OECD, Asian Development Bank, and International Monetary Fund. It is the largest donor of foreign assistance to 25 developing countries as of 1986,

³ A comment by former Secretary of Commerce Peter Peterson, Asahi Shinbun March 15, 1990.

⁴ Former Secretary of State Vance comments, "Japanese defense capability is currently in the best condition." Asahi Shinbun March 8, 1990.

compared to 6 in 1970. It became the world's largest creditor nation with \$291 billion as of the end of 1988. Half of its \$832 billion long-term assets abroad are in the form of securities and bonds. In 1988 alone, Japan spent \$87 billion for the purchase of securities, out of which \$36 billion were American. It would be natural to suppose that Japan deserves greater power status as a global leader, particularly in consideration of the fact that the United States has become increasingly dependent on "immigrant dollars"⁵ from Japan in order to sustain the vitality of its economy, a crucial basis of its global leadership.

The fact is, however, that most nations in the world do not look to Japan for a leadership role. Their skepticism towards Japanese leadership remains profound. Firstly, historical evidence favors the United States over Japan. The United States was the liberator of the last war, whereas Japan was the invader. Even though 99% of Japanese and German people do not even think of a possibility of the revival of militarism in their nations, people whose lands were once invaded by Japan and Germany have a totally different perception. On every war memorial day, the world is reminded of the horrendous and brutal deeds of the Japanese Empire and the Third Reich, and thus the negative images persist in the human mind. Secondly, at the core of

5 Kenichi Ohmae named the foreign capital investments in the U.S. "immigrant dollars," because the dollars come into the U.S., become American and contribute to the U.S. economy. Chuokoron January 1990, p.77.

the postwar international order has always been the U.S.-Soviet leadership, which was basically balanced by the arms race and equilibrium. The political development of the East-West relations has been viewed primarily in light of the balance between NATO and Warsaw Pact. Thus the Japanese influence is secondary at best. Furthermore, thirdly, there is still a preeminent preference in general for Western values, which are the greatest common measure in advanced nations, and Japan is absolutely a minority in this respect (see Chapter 3 for related discussion). Even in the Orient, many people would be reluctant, due to the memory of the Second World War, to approve of Japanese leadership, although they do admire the Japanese economic success.

The fourth reason for skepticism towards Japanese leadership lies in its lack of a clear vision. The following statements are indicative of the typical opinions:

Japan should explain to the world what kind of global leader it intends to be, and discuss it with other nations.⁶

Japan lacks the sense of mission as a nation, and is interested only in business. Japan must bear the pain that comes with leadership.⁷

Japanese political leaders try to please everyone, and seldom express their candid opinions.⁸

As a Japanese Foreign Ministry official explains, since it put an end to its seclusion policy in 1853, Japan has wandered to-and-fro between "post-Asianism and Asianism" and

6 Asahi Shinbun March 6 and 10, 1990.

7 A comment by former U.S. Trade Representative, Robert Strauss, Asahi Shinbun March 7, 1990.

8 A comment by Ezra Vogel (professor of Harvard University), Asahi Shinbun March 9, 1990.

"arrogance and obsequiousness," being unable to find a harmonious and , balanced confidence in, itself.⁹ The principles of Japanese postwar foreign policy have always been stated in the Blue Books of Foreign Affairs as not becoming a military power, and contributing to the prosperity and peace of the world as a bridge between the North and South. Japanese determination to make a global contribution has been firmer than ever in the last decade when internationalization has been the trend. These principles are, however, too basic and general to understand the intentions of Japan. To compound this setback, Japan has failed to publicize its policies to other nations on an extensive scale. It is generally pointed out that it is a consequence of the lack of communication and publicity, which originates in the Japanese tradition of modesty and taciturnity.

Lastly, it is the image Japan itself has created that has aroused such skepticism: its uniqueness made it possible for Japan to overcome its poverty and vulnerability to the shortage of energy supplies. As a former West German Chancellor notes:

Americans are wrong if they believe that what is good for America must always be good as well as for Europe. And what is good for Europe is not necessarily good for America. What is good for Japan is not necessarily good for America, and what is good for America is not necessarily good for Japan.¹⁰

⁹ Gaiko Forum May 1990, p.22.

¹⁰ Helmut Schmidt, A Grand Theory for the West: the Anachronism of National Strategies in an Interdependent

But Japan would be equally wrong if it believes that what is good for Japan is good only for Japan. Few nations that profess themselves to be a unique success would be able to win the trust from other nations. There is no wonder, therefore, that the American ideal of egalitarianism has a more universal appeal than Japanese economic success.

In consideration of these facts, the question comes down to whether or not Japan has the will to play an influential decision-making role in the international community. As yet, Japanese high-ranking governmental officials are afraid that any missionary foreign policy would be counterproductive to its survival in the world of interdependence (see Chapter 3 for detail). To quote the Japanese Vice Minister for Foreign Affairs, Takakazu Kuriyama:

We will never aspire to be a strong messianic leader. We made a bad mistake in the first part of this century, and 99% of the Japanese people do not want to repeat it ... We aspire to a modest but useful international role. Ours is a fairly modest vision - not very ambitious, not very ideological, - but solid in its commitment to democracy, a free market economy and a non-military role in the world.¹¹

To be "useful," Japan will continue to pursue its Contributing-to-the-World goals. It is presumed to be most effective for Japan to complement insufficiency in American and European leadership in such areas as capital, information and technology. If money is the only source of contribution Japan has, Japan should not be oversensitive to

World (New Haven and London: Yale University Press, 1985), p.32.

¹¹ TIME, April 23, 1990, p.34.

the allegation that it is acting on the strength of its affluence.

In the meantime, other Western advanced nations have an ambivalent perception of Japan. They expect Japan to make a greater contribution in alleviating the Third World debt by increasing foreign assistance and eliminating its trade barriers at home. However, these same Western nations remain reluctant to accept the possibility of Japanese international political influence commensurate with her economic power. In the case of the IMF, which is virtually operated by the group of five major advanced nations, Japan has been promoted officially to the second largest donor from the fifth, with the consent of the rest of the member nations. Reinforced financial support for the debt crisis in South and Central America as well as the developments in Eastern Europe are most probably going to be some of the urgent tasks of the IMF, and Japan's increased disbursements are necessary. This, however, means that Japan can have the second largest influence in the international monetary and financial decision making. Unfortunately, a sudden increase in its influence as a result of Japan's promotion in the IMF may be considered as arrogance of an economic power. This is partly because other major advanced nations remain distrustful of Japan. Although there have been countless numbers of grass-root level efforts to deepen mutual understanding and trust, what can be done at the political level in order for Japan to cultivate mutual trust is not

easy to answer. Apparently, the best way is for Japan to demonstrate its accomplishments of its commitment in international responsibility sharing. Giving world-wide publicity to such accomplishments may facilitate the understanding of skeptical nations about Japan's good intentions.

Prospects of U.S.-Japanese Interdependence

We came to a conclusion earlier that changes in the socioeconomic structures are inevitable in both the United States and Japan. These changes are intended to be the basis of a new "level playing field" that Japan and foreign participants share to play a positive-sum game. Will the changes be made smoothly, or will there be more American pressure on Japan? The question is not whether the changes will take place, but rather the process of changes and likely obstacles against a smooth transition.

In terms of the process, many Japanese fear that "free and fair trade" may become a system in which even uncompetitive products can win. In contrast to multilateral trade bargaining with non-discriminatory and relatively objective GATT rules, bilateral negotiations may be more affected by subjective ideas and domestic laws of the nations concerned. For this reason there arises the question of what is to be balanced. For example, is it a reciprocity in the system, in the quantity, or in the profit in the result? In the context of U.S.-Japanese interdependence,

the final solution to trade problems can be largely "determined by the bare power relations" of the two nations.¹² In other words, the overall asymmetry in U.S.-Japanese interdependence is still in favor of the United States, and therefore the United States is able to take the lead in many cases. A case in point is the Super Article 301, which intimidated Japan to a considerable degree. The U.S. Congress has expressed its deep regret regarding the optimism of the Bush administration that there will be a significant market-opening in Japan as a result of the recent trade talks. Viewing "going soft on Japan is a serious mistake,"¹³ the Congress wants to keep pressuring Japan with the threat of trade sanctions, even though U.S. Trade Representative Carla Hills judges such pressure will only be counterproductive to U.S.-Japanese relations. Nevertheless, the strong congressional influence over the U.S. government can never be ignored, particularly because the Congress may be able to tame the government by taking the opportunity of the congressional election coming in September, 1990.

In any event, changes must take place in an incremental manner. A sudden reduction in the land price of Japan, for example, will definitely trigger chaos in the Japanese economy, affecting the U.S. economy and ultimately

12 Hiroaki Fujii, "The Interdependent World and the Japanese Diplomacy," Gaiko Forum May 1989, p.19.

13 A comment by Senator Lloyd Bentsen (Democrat, Texas) on the government decision to strike Japan off the list of unfair trading partners, Cable Network News, April, 1990.

influencing the international economy. Either nation's indiscreet or misplaced pressure will feed back to its own economy.

In the long term, Japan can be a very "useful"¹⁴ partner of the United States in a variety of fields. Not to mention the provision of capital to developing countries, their technological cooperation can contribute to such global environmental problems as earth warming and the exhaust of carbonic acid gas. Japan, which had accomplished a successful energy conservation program as a result of the two energy crises, can share its knowledge with developing countries that are vulnerable to energy supply shortages, and work together with other advanced nations for the development of alternative energy resources. In terms of defense, U.S.-Japanese cooperation can create a superb defense system with combining American military technology and knowledge and Japanese capital and technology. Though Japanese defense technology is far behind the American counterparts, the United States would need Japanese cooperation in such areas as fiber-optics technology to improve its surveillance system. Joint research and development now legitimized under the New U.S.-Japanese Science and Technology Agreement can largely reduce the cost.

With international relations on the threshold of major changes, the prospects for U.S.-Japanese relations cannot be

¹⁴ See footnote 11.

easily specified. Currently, for example, no one can be absolutely sure what kind of nation the Soviet Union is going to be in the future. The North Atlantic Treaty Organization nations are thus cautiously watching the process of perestroika, as they unanimously demand that the unified Germany stay in NATO. Furthermore, in the American view, Soviet policy can change overnight, though capability cannot, should President Gorbachev be overturned by a dictatorship or a more ideologically-oriented communist government. In Europe, there are political issues to be stabilized and economic changes intended in Eastern and Central Europe. Moreover, the economic integration of Western European nations in the EC in 1992 has implications for increased European political unity. In the Middle East, the Oil Powers such as Saudi Arabia and Kuwait are likely to be somewhat more assertive in the near future, as the American oil reserves and the North Sea oil reserves are rapidly becoming scarce.¹⁵

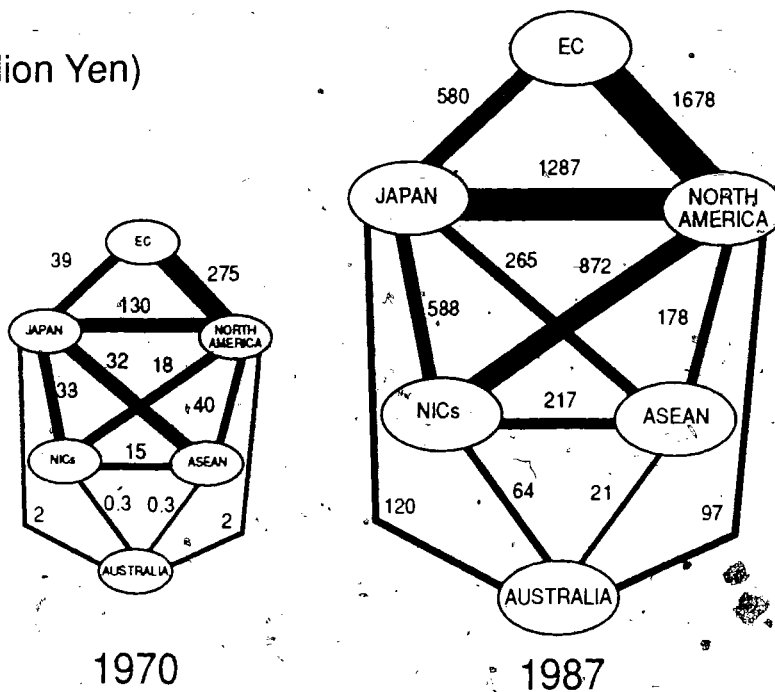
From the limited discussion in this thesis, what can we say about U.S.-Japanese interdependence in the era of such an unpredictable international situation? There is an indication that the nature of U.S.-Japanese interdependence has become increasingly symmetrical in recent years. There

¹⁵ As of January 1988, years of the proven oil reserves of the U.S., Great Britain and Canada were 8.3 years, 5.8 years and 12.3 years respectively, compared to Saudi Arabia, Kuwait, and Iran, which have oil reserves of 113.6 years, 224 years and 110.2 years. Japan: An International Comparison, p. 14.

are even asymmetries in some areas that favor Japan. Influence deriving from such asymmetries can be an instrument of power, and increase in power must involve an increase in international responsibilities, which Japan has begun to assume. Its concept of interdependence, therefore, should change accordingly. The United States on its part must recognize the fact that interdependence among advanced nations has caused a redistribution of power that was once concentrated in the United States under extraordinary circumstances. Thus there are limits in the power of today's United States, and power must be shared. Subsequently, the United States may also have to reconsider its concept of interdependence in accordance with these changes in its power relations with others. The recognition by both the United States and Japan of power-sharing and international responsibility-sharing can be a force to diminish the differences between the two nations' concepts of interdependence. We submit that the better-coordinated concepts of interdependence may consequently ease U.S.-Japanese economic frictions and improve the relationship between the two nations.

Diagram I: The Expanding Asian Trade

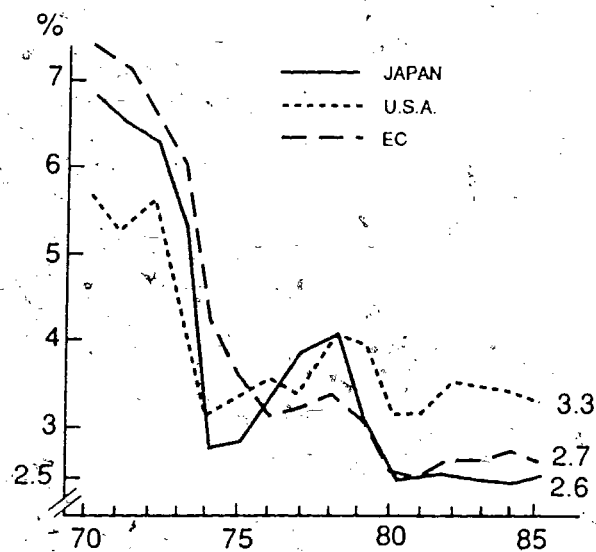
(100 million Yen)



Note: The figures are the sums of exports and imports.

Source: Ministry of International Trade and Industry, *The Japanese Economy Illustrated*, p.235

Graph I: Trends in Tariff Burden



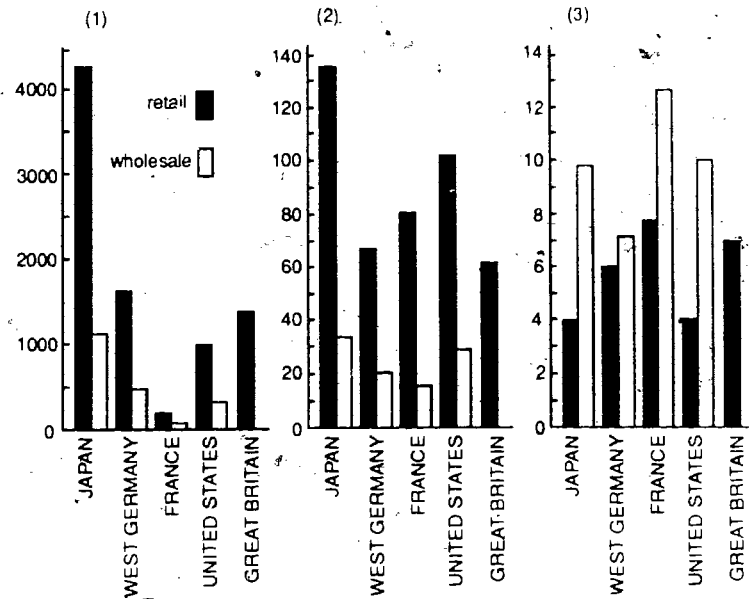
Notes: (1) rate of Tariff Burden = $\frac{\text{Value of Tariff revenue}}{\text{Total Value of Imports}}$

(2) Values of customs revenue are account settlement values.

(3) The rate of burden for the EC are based on imports from outside of the EC.

source: The Japanese Ministry of Finance "Monthly Report on Finance and Fiscal Statistics." OECD "Statistics A," "Revenue Statistics." IMF "International Fiscal statistics." in *Japan: An International Comparison* (Japan Institute for Social and Economic Affairs, 1989), p.31

Graph II: A Comparison of Distribution Structures in major advanced industrial countries



note: The Japanese and German statistics are those of 1985, the U.S. 1982, France 1986, and Great Britain 1984.

- 1) acreage ratio stores / 1,000 km²
- 2) population ratio stores / 10,000 people
- 3) number of employees per store

source: *The Japanese Economy Illustrated*, p.85

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