

foreign policy *in focus*



Interhemispheric Resource Center
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Japan: Trade and Security Interdependence

Close trade and security ties bind the U.S. and Japan in a web of interdependence. The mutual benefits from the close relationship are tremendous but so are the difficulties created by asymmetries in trade and security relations. Voices from both sides demand rethinking a relationship frozen in cold war patterns.

The Clinton administration has separated trade and security policy, aggressively pursuing change in the former while defending the status quo in the latter. Previous administrations addressed trade policy in the context of the National Security Council, where security interests balanced domestic business interests to moderate trade policy. The establishment of the National Economic Council by the Clinton administration excluded security officials from trade-policy decisionmaking.

Key Points

- U.S. policy has been disjointed, alternating its focus from trade to security issues. The U.S. has demanded change in trade relations while upholding the current security relationship.
- Critics of U.S. policy argue that U.S. aggressive unilateralism and managed trade violate the principles of the multilateral free trade system. The U.S. has been weak in its public-relations effort to gain support for its trade policy.
- Pressure is growing to reduce U.S. troops stationed in Japan.

Persistent U.S. trade deficits with Japan frustrate U.S. politicians and business leaders. Since Japan had already eliminated most tariffs and quotas by the mid-1980s, U.S. policy under the Bush administration shifted to demand structural reforms of the Japanese economy. Advocating a "results-oriented" strategy, the Clinton administration pursued managed trade, in which negotiated agreements set quantitative indicators for foreign market share. Many economists,

other nations, and Japanese leaders condemn this approach as contrary to the free trade principles the U.S. promotes elsewhere.

Trade friction has declined as U.S. concern shifts to monitoring implementation of agreements. Rapid yen appreciation in 1995 and the shift of production overseas by Japanese companies, along with negotiated agreements, have reduced the trade deficit. In the auto sector, responsible for three-fifths of the Japanese surplus with the U.S., negotiators reached a compromise to change Japanese regulations and promote access by foreign makers but only after considerable controversy and U.S. threats to implement sanctions. Uruguay Round agriculture-liberalization agreements settled several

long-standing disputes regarding Japanese agriculture protection, and in 1996 the U.S. and Japan renewed the semiconductor trade pact. One outstanding issue is the Kodak suit against Fuji Film currently under World Trade Organization (WTO) consideration.

The U.S.-Japan Mutual Security Treaty traditionally offset trade controversies and stabilized the relationship. The alliance serves mutual interests through an asymmetrical arrangement in which the U.S. guarantees Japanese defense and gains a strategic position in East Asia with 59,000 U.S. troops based or home-ported in Japan. In return, Japan subsidizes the U.S. troop presence and receives a security guarantee without raising the worries of neighboring countries about possible Japanese rearmament. Since the 1980s, however, several problems have troubled the alliance.

U.S. support for the current security arrangements remains strong, although it requests greater burden-sharing from Japan. The U.S. contends that the alliance creates stability in East Asia amid uncertainties about Chinese military buildup and possible crisis in North Korea. In addition, it forestalls an independent Japanese military buildup, which could spark a wider arms race given Asian resentments of Japan. Moreover, Japanese subsidies make it cheaper to station troops in Japan than at home.

In Japan, progressive elites, reflecting pacifist sentiments and contending that Japan faces few security threats, urge an end to the treaty. Following the rape of an Okinawa schoolgirl by U.S. servicemen, many Japanese question the need for U.S. bases, considering the crime and noise problems. Nationalists call for autonomy and an end to the alliance. Among parties, Shinshinto leader Ichiro Ozawa advocates strengthening the alliance by constitutional reforms necessary for more active military engagement. The Socialist Party abandoned its opposition to the treaty to join with the conservative LDP, which supports the current security relationship.

After three years of nearly exclusive focus on trade policy, in 1995 U.S. policy moved to address security issues and reaffirm the overall integrity of the relationship. One important effort was the Nye initiative, which discussed the importance of the alliance with Japan for U.S. global strategy.

Because of the U.S. government's urgency to improve the trade deficit, its policy toward Japan has not addressed the relationship in its wider context. Through the strategy of aggressive unilateralism, the U.S. has generated more friction than justified by the results achieved and ignored alternative means for pursuing the same goals. While insisting on telling Japan how to change its domestic policies, the U.S. has failed to recognize the validity of Japanese claims that low U.S. savings and investment rates are in part responsible for the trade imbalance.

Although the U.S. policy has referred to quantitative measures as targets rather than quotas, the U.S. nevertheless pursues managed trade from a unilateral position. For the last three years, Japan has been going through a period of political change in which political and administrative reform and deregulation have been central issues. Yet the U.S. continues to treat Japan as if nothing has changed from the 1950s and 1960s when the bureaucracy tightly controlled industrial policy through administrative guidance. Bureaucratic influence on economic policy remains strong, but it is no longer a pattern of direct intervention. Many of the policy tools of that era are no longer applicable as companies have more options for financing investment. U.S. demands that the Japanese government intervene in the domestic economy in some unspecified manner to allocate market share overestimates the capacity of the Japanese government. Even granting that the Japanese government could likely influence companies to increase foreign market shares, such policy intervention reinforces past patterns and strengthens government bureaucracy.

Further liberalization of the Japanese economy is more likely to result from the domestic political process in which politicians, with the support of the public and key sectors, implement far-reaching deregulation measures. In some sectors such as agriculture, there may be no domestic support for liberalization reform, and change will only come gradually. U.S. pressure may speed the liberalization process, but lack of Japanese support severely constrains reform efforts. Meanwhile, U.S. demands for liberalization of such sensitive areas antagonize important groups in Japan.

Unilaterally threatening sanctions and managing trade, the U.S. sacrificed the credibility of its commitment to

free trade and multilateralism. This weakens U.S. leverage for future negotiations when the U.S. tries to persuade other nations to support the multilateral free-trading system. In past trade negotiations, domestic actors in Japan such as export firms, the media, and some of the public have been critical of the Japanese position and served as allies in the U.S. demands for reform. However, the Clinton administration's approach allowed the Japanese government to argue convincingly that it represented the interests of free trade and was resisting unfair U.S. demands, although macroeconomic factors were the real cause of the trade problems. The U.S. has isolated itself in fights against Japanese bureaucrats and missed opportunities to find allies among some Japanese people and companies who favor liberalization and among other nations also desiring access to the Japanese market.

The question remains whether similar or better results could have been achieved through a less controversial approach. Aggressive unilateralism has unified Japanese industry and the public behind the Japanese government to back "a Japan that can say no." It has also resulted in a missed opportunity to strengthen the newly established WTO by setting an example that the WTO is the appropriate forum for settling trade disputes in a rule-based process. The benefits have been a small improvement in the trade deficit, but this is mostly the result of improved terms of trade caused by yen appreciation and competitive improvements by U.S. companies selling products in Japan.

By separating trade policy from security policy, the U.S. adopted trade policies that antagonized Japan without full recognition that the desire for friendly relations with the U.S. is the fundamental underpinning of Japanese support for the security alliance. Damaging the overall relationship through aggressive trade policies undermines Japanese support for the alliance. The major parties in Japan all support continuance of the U.S.-Japan Security Treaty, but demands are rising for change, and some politicians will capitalize on resentment of U.S. trade policy to rally public sentiment against the U.S.

Key Problems

- Aggressive unilateralism in trade policy has isolated the U.S., depriving it of potential leverage from domestic Japanese allies and from other governments sharing U.S. frustrations.
- Increasingly hostile trade relations threaten to undermine support for the U.S.-Japan alliance.

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In view of the negative public-relations effects of aggressive unilateralism in trade policy, whenever possible the U.S. should select bilateral and multilateral options that better preserve the quality of the relationship. Too often U.S. policy conceives of power as the ability to coerce another state into meeting U.S. demands. But such a strategy has declining effectiveness over time as built-up resentment produces greater resistance. Evidence of this reaction in Japan is given by the fact that prior to becoming prime minister Ryutaro Hashimoto gained popularity from “saying no” to the U.S. during the protracted automobile negotiations when he was Japan’s top negotiator. In the long term, building a strong relationship provides greater leverage for persuading another country to accommodate requests. U.S. power may be better preserved by avoiding the use of coercion and dropping the unilateral managed-trade policy.

The bilateral framework negotiations of the Structural Impediments Initiative of the Bush administration provide lessons for a better policy approach. The talks were explicitly reciprocal in nature—the U.S. and Japan each

specified desired reforms. Although the talks addressed sensitive domestic issues such as reform of Japanese laws and the U.S. budget deficit, their low-profile, bilateral nature averted major controversy. Equally important, in areas where U.S. demands found allies among groups in Japan and received favorable media coverage, the specified laws were changed to allow greater access by foreign companies to the Japanese market.

The new WTO provides rule-based procedures for settling disputes, which will apply considerable pressure against Japan.

Discussion of raising an issue in the WTO may suffice to encourage policy changes in Japan. Certainly this approach avoids the threats and accusations that typically characterize bilateral disputes. More important, internal pressures from export companies and consumers, as well as the political and normative pressure from a ruling representing other nations and the multilateral trading system, will apply considerable pressure on the Japanese government to make changes in policy. An effective strategy for achieving more results with less friction would be to discuss the need for structural reforms through bilateral negotiation frameworks while resolving specific trade disputes through the WTO.

The U.S.-Japan security relationship, from its beginnings at the end of the occupation, has been asymmetrical. Now that Japan is an economic superpower and the cold war has ended, the rationale for the alliance is further stretched. More must be done to highlight the importance of reconceptualizing the alliance within the context of East Asian security, while also adjusting to the new security realities and feelings in Japan favoring base reduction. These two goals have been portrayed as opposite poles—it is said that Japan’s demand for the

reduction of U.S. bases would likely create perceptions of U.S. disengagement from the region, thus opening a power vacuum and potential arms race. However, active involvement in Asian security cooperation discussions through the ASEAN Regional Forum and a gradual schedule of reducing troop numbers accompanied by active diplomatic efforts toward regional arms control would reassure nations that the U.S. change in policy reflected confidence in prospects for regional cooperative security and not a disengagement from the region.

Cooperation on regional issues and for goals of the United Nations and the multilateral trading system develops comfortable working relations between the two governments that may help ease tensions when confronting controversial trade issues. Lowering the decibel levels of trade friction while also increasing cooperation in other spheres would improve the overall tone of the relationship. The U.S. and Japan share many interests, both economic and security, and also share liberal democratic values. Cooperation rather than friction should characterize relations between these two countries.

Specific recommendations:

- U.S. policy should be more multilateral in its focus through reliance on multilateral trade institutions and active engagement in regional-security policy discussions.
- Structural reforms of the U.S. and Japanese economies should be discussed in the context of bilateral negotiations. The U.S. should make assiduous public-relations efforts to gain the support of groups within Japan that have reason to share U.S. desires for reform of the Japanese economy.
- Trade-policy demands should be framed as requests for removal of specific barriers to trade. Demands for market-share allocation and threats of unilateral sanctions should not be made. Concessions by the U.S. on issues of concern to Japan will help to build a pattern of reciprocity.
- Questions regarding the levels and placement of U.S. troops within Japan need to be addressed in discussion of all options. The U.S. should be accommodating to Japanese requests for restructuring or reducing troops.
- The U.S. should cooperate with Japan on shared global concerns such as environmental protection, development-assistance programs, and in the effort to prevent nuclear proliferation and promote arms control. Cooperation in these areas will build a stronger relationship between Japan and the U.S. and also encourage Japan to take a more active role contributing to international society.

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Key Recommendations

- The U.S. trade policy should combine low-key bilateral negotiations and WTO dispute settlement for more controversial issues.
- The U.S. should be flexible regarding possible reduction of troops stationed in Japan.
- Opportunities should be taken for deepening U.S. engagement in East Asia through cooperation with Japan in regional security forums and efforts to increase trust and support for arms control.

sources for more information

Organizations

Japan Economic Institute
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The Japan Information Access Project
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Washington, DC 20036-5915
Voice: (202) 822-6040
Fax: (202) 822-6044
Email: access@nmjc.org

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Asahi Shimbun (Japanese newspaper available in English)
<http://www.asahi.com>

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