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## The Political Process of Interdependence between the U.S and Japan

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THE POLITICAL PROCESS OF INTERDEPENDENCE  
BETWEEN THE U.S. AND JAPAN

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A Thesis

Presented to

The Faculty of the Department of Government  
The College of William and Mary in Virginia

In Partial Fulfillment

Of the Requirements for the Degree of  
Master of Arts

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by

Diane Alleva

1989

APPROVAL SHEET

This thesis is submitted in partial fulfillment of  
the requirements for the degree of

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**FOR MY FAMILY**

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## **ABSTRACT**

This case study of the current U.S.-Japanese bilateral relationship attempts to provide empirical insights into the themes of interdependence, change, uncertainty and cooperation in international relations. It examines the growing interdependencies between the two nations as both are becoming more sensitive and vulnerable to each others choices. In addition, it analyzes the constraining effects of rapid change on a state's ability to adapt to a transforming environment. The management of uncertainty produced by these dynamics has important implications for future forms of cooperation between the U.S. and Japan. Although both states are redefining goals and policies, their future relationship will remain similar to the present.

**THE POLITICAL PROCESS OF INTERDEPENDENCE  
BETWEEN THE U.S. AND JAPAN**



## CHAPTER 1

### INTERDEPENDENCE AND PROBLEMS OF COOPERATION IN A WORLD OF SHIFTING CAPABILITIES

#### INTRODUCTION

The themes of interdependence, change and cooperation have become central to the study of international relations. Since WWII, the pace of change has increased, forcing states to become mutually dependent in their economic, political, military and social relations. This complex interdependence and the ability of states to adapt to change affects the possibilities of cooperation and of conflict.

This thesis attempts to show the difficulty of identifying national goals and formulating policies as state power, perceived interests and cultural values are changing. It will not discuss the forces for change so much as their effects and the attempts that have been made to manage them. Consequently, the difficulty of adjusting to new world roles has profound implications for cooperation and world order.

As a case study I will focus on the U.S.-Japanese bilateral relationship which, because of its combined economic and military power, inevitably affects the stability of the international system. The relationship provides a good example of both the positive and negative effects of interdependence and the problems of adjusting policies to mutual expectations in a world of shifting capabilities. First, I will briefly discuss the

differing definitions of interdependence and their broader implications concerning uncertainty, cooperation and conflict.

## INTERDEPENDENCE <sup>1</sup>

### Definitions

Most definitions of interdependence discuss either its constraining effects on a state's ability to make independent choices, or, the relative impact of both events resulting from these choices and the forces of the international system on state behavior.<sup>2</sup> For example, Oran Young defines the concept as "...the extent to which events occurring in any given part or within any given component unit of a world system affect (either physically or perceptually) events taking place in each of the other parts or component units of the system."<sup>3</sup> Young, then, takes a systems approach in defining interdependence by focusing on the degree of impact of events on actors within the international system.

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<sup>1</sup> Interdependence here refers to dependency relationships between "developed" states.

<sup>2</sup> For a good summary of the different assumptions held by realists and pluralists concerning international relations, see International Relations Theory: Realism, Pluralism, and Globalism, ed. Paul R. Viotti and Mark V. Kauppi (New York: MacMillan Publishing Company, 1987), 11.

<sup>3</sup> Oran Young, "Interdependencies in World Politics," in International Relations Theory: Realism, Pluralism, and Globalism, ed. Paul R. Viotti and Mark V. Kauppi (New York: MacMillan Publishing Company, 1987), 726-50.

Arthur Stein states that "...an actor's returns are a function of other's choices as well as its own...interdependence in the international arena...makes mutual expectations, and therefore perceptions, very important."<sup>4</sup> Contrasting this definition with Young's, Stein emphasizes the degree to which actors' choices affect one another in addition to the influence of the international system itself. The context of interdependence forces states to take into account mutual expectations as the use of force becomes less relevant.

Robert O. Keohane and Joseph S. Nye, as theorists who attempt to integrate both realist and pluralist perspectives, study both the influence of actor's choices and the international system on outcomes. For instance, they state that interdependence entails "reciprocal effects among countries or among actors in different countries".<sup>5</sup> They do not attempt to prove whether state choices or the structure of the international system produce reciprocal effects. Rather, it is assumed that both do. This definition focusses on the outcomes themselves and their effects on other countries. The drawback, however, in focusing on the international level of analysis lies in the

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<sup>4</sup> Arthur Stein, "Coordination and collaboration: Regimes in an Anarchic World," in International Regimes, ed. Stephen D. Krasner (Ithaca: Cornell University Press, 1983), 132.

<sup>5</sup> Robert O. Keohane and Joseph S. Nye, "Realism and Complex Interdependence," in International Relations Theory: Realism, Pluralism, and Globalism, ed. Paul R. Viotti and Mark V. Kauppi (New York, N.Y.: MacMillan Publishing Company, 1987), 381.

inevitable downplaying of the importance of the domestic policy-making process on outcomes.

In examining the U.S.-Japanese changing relationship, both state policies and the transformation of the international system will affect its future character. Currently, the interaction of these two variables is causing friction between the two countries. Underlying these dynamics and the realization that states must reevaluate past policies, is a relative shift in power defined more in terms of economic rather than military influence.

Reciprocal effects created by policies and the transforming system vary according to the degree and type of interdependence. Further, international issues arising from these effects are the result of states questioning the terms of interdependence.<sup>6</sup> For example, in terms of the current trade dispute, Japan may ask the question; can we drastically reduce trade with the U.S. in order to decrease our dependency upon them? They may also ask; can we effectively defend ourselves without U.S. military forces? The U.S. may ask the same question concerning trade with Japan. In addition, does the U.S. need military base rights in Japan or can it transfer them to other areas which would be just as effective?

To clarify interdependent relationships, Ernst Haas defines them in terms of sensitivity and vulnerability. He states that;

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<sup>6</sup> Ernst Haas, "Why Collaborate? Issue-linkage and international regimes," World Politics (1987): 362.

Sensitivity is measured by the perceived effects of interrupting a pattern of interdependence. Vulnerability is measured by the opportunity costs incurred by making alternative arrangements for collaboration when the initial arrangement breaks down. Unequal sensitivity and vulnerability amount to asymmetrical interdependence.<sup>7</sup>

The U.S.-Japan interdependent relationship includes issue-areas such as defense, trade and foreign aid where the degree and type of dependence within each varies over time.

Sensitivity can be used in the context of the U.S.-Japan economic relationship while vulnerability can be used to analyze the military relationship. The sensitivity of Japan shifting its trading or investment pattern away from the U.S. is measured according to the perceived effects on its own economy as well as the U.S.. In terms of vulnerability, some Japanese and U.S. policy-makers are weighing the opportunity costs of making alternative military arrangements between the two countries. They are questioning the initial arrangements, outlined in the Mutual Security Treaty, because of the perceived inability of the U.S. to maintain overseas commitments at current levels. However, measuring these variables to determine the degree of asymmetry in the overall relationship is a difficult task. Analysts, for instance, use trade and financial flows and the number of troops and aircraft carriers as objective measurements. However, the interpretation becomes subjective when determining which is more influential, economic or military power.

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<sup>7</sup> Ibid., 363.

Nevertheless, choices made by both countries plus the transformation of the international system will affect their future relationship. In both instances, relative power shifts will influence the outcomes.

### Broader Implications

Just as interdependence encompasses many definitions, it fosters broader implications for policy. Realists such as Waltz focus on the dominance-dependence relationship where dependence implies vulnerability, increasing the chances of conflict. In order to avoid this outcome, states should seek to be less interdependent and less vulnerable to other state's actions in order to survive in the international system.<sup>8</sup> Maximizing power implies decreasing one's dependency on other states.

Pluralists focus on the asymmetry of state to state and group to group relations which may result in cooperation just as much as conflict. To provide a balanced understanding of international relations, that is, focussing on peaceful change rather than war as a mechanism for change, pluralists attempt to explain how states cooperate given their interdependent relationship.

Elaborating on the theme of mutual effects, Keohane emphasizes the asymmetry and sensitivity of state relations.

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<sup>8</sup> Viotti and Kauppi, 54.

"...Interdependence by no means implies equality. Interdependent relationships are more or less asymmetrical depending on the characteristics of issue-areas and the attitudes and interests of elites, as well as on the aggregate levels of power of the states involved. Thus we use the term "interdependence" to imply some degree of mutual effect"<sup>9</sup>

As relative dependency shifts, in the case of the U.S. and Japan, both countries attempt to adjust policies within issue areas such as military, trade and finance, and foreign aid. Although this period of uncertainty may cause some discord, the presence of conflicting and complementary interests can create the potential for cooperation. In the long run, states may find it in their best interest to adjust policies to the preferences of others. According to these possibilities, then, the concept of interdependence bears directly on the problems of uncertainty and subsequently the possibilities of cooperation and discord in international relations.

#### THE RELATION BETWEEN INTERDEPENDENCE AND UNCERTAINTY

The broad concept of change also influences types and degrees of interdependence and uncertainty.<sup>10</sup> It affects the vulnerability and sensitivity of one state to another. As

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<sup>9</sup> Keohane and Nye, "International Interdependence and Integration", in Viotti and Kauppi, 361-378.

<sup>10</sup> Robert Gilpin identifies processes such as economic globalization and internationalization of production that are transforming relationships into higher levels of interdependence. See "Forces for Change," Journal of Japanese Trade and Industry, no. 3 (1989): 27.

preferences are based on state power, perceived interests, and cultural values, the effects of change on these variables can also cause uncertainty in state relations.

Realists such as Kenneth Waltz, David Singer and Karl Deutsch all agree that uncertainty is a function of the number of actors involved.<sup>11</sup> As the number of actors in the international system increases, so does the amount of uncertainty about the effects of actions taken by decision-makers. Combining the implications of Stein's idea of interdependence with the above conclusion, as the number of actors in the international system increase, so do the number of choices an actor must confront. The reciprocal effects of these choices depends on the actor's own decisions as well as others.

This conclusion implies that the capacity of states to gather accurate information concerning others' preferences decreases as many more actors are included in the system. Thus, uncertainty results when information is difficult to obtain, making expectations unknown. This uncertainty influences the possibilities for cooperation.

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<sup>11</sup> Kenneth N. Waltz, "The Stability of a Bipolar World," Daedalus 93 (Summer 1964): 881-909; Karl W. Deutsch and J. David Singer, "Multipolar power systems and International Stability," World Politics 16, no. 3 (April 1964): 390-406. Cited in Viotti and Kauppi, 54.



## UNCERTAINTY AND THE POSSIBILITIES FOR COOPERATION OR DISCORD 12

Many Realists, searching for the causes of war, focus on the confusion prevalent before major wars such as WWI and WWII. When mutual expectations are unknown, misperceptions about an actor's intentions and events may produce inappropriate policies. According to realists such as Waltz, as this uncertainty increases, the potential of actors to misjudge intentions is more likely to cause conflict.<sup>13</sup>

In contrast, Singer and Deutsch, maintain that uncertainty produces cooperation. Uncertainty forces actors to be cautious and to "follow tried and true policies of the past".<sup>14</sup> Any mistake in formulating new policies may be too costly in terms of loss of military, economic and political power.<sup>15</sup> However,

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<sup>12</sup> Examining the concept of cooperation, Robert Axelrod and Robert Keohane state that, "...world politics is not a homogeneous state of war: cooperation varies among issues and over time". Furthermore, "cooperation is not equivalent to harmony. Harmony requires complete identity of interests, but cooperation can only take place in situations that contain a mixture of conflicting and complementary interests. In such situations, cooperation occurs when actors adjust their behavior to the actual or anticipated preferences of others. Cooperation, thus defined is not necessarily good from a moral point of view". A state's conception of cooperation affects the possibilities of achieving it. See "Achieving Cooperation under Anarchy: Strategies and Institutions," International Organization : 226.

<sup>13</sup> Viotti and Kauppi, 54.

<sup>14</sup> Ibid.

<sup>15</sup> *ibid.*

inevitably, change seems to force a redefinition of power, interests, policies and goals. Following proven policies of the past becomes outdated and inappropriate as the context of the relationship changes. Cooperation or conflict depends on whether states can adjust policies to changing expectations. The larger question, which is beyond the scope of this paper but nevertheless related, asks which is the most likely method of cooperation on the international level. Will hegemonic leadership, international regimes or some compromise of the two facilitate stability?

#### CONCLUSION

This broad development of interdependence, the causes of uncertainty and its effects on cooperation and conflict bears directly on the U.S.-Japanese relationship. The current disputes in trade and defense areas illustrate the sensitivities, vulnerabilities and asymmetries in the relationship. Whether they will both adapt to changes in mutually beneficial ways is uncertain.

The body of this paper will examine the problems of redefining world roles, their effects on policy and in turn, their influences on the complex interdependent U.S.-Japanese relationship. Specifically, chapter 2 discusses the constraints on, current attitudes regarding and possible future scenarios of Japan's changing world role. Chapter 3 examines the concept of

"burden-sharing" and the difficulties of defining state goals and identifying mutual interests while forming policy. Chapter 4 analyzes in detail the problems within the U.S.-Japanese relationship in the areas of military, trade and finance, and foreign aid. The final chapter will draw conclusions concerning external and internal constraints on Japan as it attempts to develop a new world role. This process will directly affect its relationship with the U.S. and the possibilities of cooperation.

## CHAPTER 2

### JAPAN'S CHANGING WORLD ROLE

This chapter discusses Japan's changing world role. It attempts to answer the questions: What are the constraints on Japan's internationalization? What are the various Japanese and U.S. attitudes towards Japan's current role in the international system? What are the possible future scenarios of Japan's role?

#### BACKGROUND

Today the Japanese are faced with the dilemma of assuming a leading international role yet there is no domestic or international consensus as to what that role should be. Japan is the world's largest creditor nation with investments in the U.S. reaching \$280 billion and 1987 estimates of \$21.8 billion in Asia.<sup>1</sup> It recently surpassed the U.S. as the number one donor of foreign aid, dispersing \$10 billion annually. Japan's dramatic increase in wealth since the 1960s has brought about an increase in power at the international level. As its wealth depends largely on world trade, Japan recognizes that its national interest now includes maintaining a stable world order. Although it acknowledge the need to take on a new international responsibility for this order, domestic and international forces constrain its ability to achieve it.

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<sup>1</sup> CRS Review, Major Issue Forum. "Japan-U.S. Relations". 101 Congress, 1st Session, July 1989.

## CONSTRAINTS ON JAPAN'S INTERNATIONALIZATION<sup>2</sup>

Japan's past reputation and, to a lesser extent, traditional values are both obstacles to its integration into the world political and economic arena. Aside from its constitution which prohibits armed aggression, the main factor preventing Japan from assuming international responsibilities commensurate with its economic power is the aggressive and brutal reputation it acquired during WWII. Many Japanese fear a return to imperialism, militarism and another devastating war, which were the result of Japan's previous efforts to internationalize. At the international level, the U.S., Asian states and Western Europe remain cautious about Japan's rise in power. Korea and China remain resentful towards Japan for its WWII occupation while the U.S. uses Japan's aggressions as an excuse to contain its expanding power. Thus, past images shape current domestic and international perceptions of Japan.<sup>3</sup> Although Japan's past imperialistic tendencies evoke concern about its current intentions, the majority of states recognize the need for Japan to share the burden of world stability in an era of shifting capabilities. The problem is, these competing perceptions

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<sup>2</sup> Barry Buzan conceptualizes Japan's internationalization as a two-way street, that is, Japan opening up to outside influence and foreigners being receptive to Japanese culture and society. See his article "Japan's Future: Old History Versus New Roles", International Affairs (1988): 573.

<sup>3</sup> Ibid., 557.

prevent the political consensus needed to forge Japan's new world role.

In addition to its aggressive reputation, perceptions of traditional values limit Japan's ability to integrate into the international system. The Japanese, according to some, maintain values such as "perseverance, frugality, effort, family, community, sacrifice, humility, the spirit of harmony and deference for the elderly" in addition to ambition, motivation, and drive.<sup>4</sup> To others they are innately aggressive and ruthless. The Japanese are ambitious and driven to create a strong Japan but not necessarily to be a world leader. These isolationist tendencies are a result of its pre-WWII isolationism and the disastrous effects of its WWII expansionism.<sup>5</sup> But the dilemma arises between Japan's growing economic power and pressures forcing it to assume more responsibility for world order.

On the one hand, Japanese society does not want to revert to imperialism or militarism, thus, a greater international role through military means remains subordinate to domestic considerations. On the other hand, the Japanese want to play a greater economic and cultural role in international society where leadership qualities are needed. The problem remains that if Japan does become more ambitious and aggressive even in these fields, Asian Pacific states and the U.S. may perceive this

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<sup>4</sup> Takashi Inoguchi, "Four Japanese Scenarios for the future," International Affairs (1989): 13-25.

<sup>5</sup> Ibid.

change as a resurgence of Japanese power and expansionism. The fear of economic power translating into military power still prevails especially in China and the two Koreas.<sup>6</sup> One can see that perceptions of Japanese intentions are still conceived in an historical context which remains an obstacle to developing a new leadership role for Japan.

### REEVALUATION OF INTERNATIONAL ROLE

Japanese economic prosperity, a slowdown in U.S. growth and competitiveness, and generational changes are causing Japan to reevaluate its traditionally passive role in society. Japan's present role exchanges U.S. military protection for support for U.S. foreign policy. However, discord in the areas of trade and defense, a result of shifting capabilities in the international system, threatens to undermine the strong bilateral relationship which the U.S. and Japan have maintained since the end of WWII. Although many Japanese continue to see the U.S. as its "big brother", this view is losing support especially among the younger generations who seem more confident about Japan and its future. Increased wealth, greater demands imposed upon Japan by its trading partners, and its doubts about U.S. capabilities and

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<sup>6</sup> Paul Kennedy observed that in the past, states whose economic base deteriorated also declined militarily. See his book, The Rise and Fall of Great Powers (New York: Random House, 1987).

commitments are spurring this reevaluation.<sup>7</sup> Thus, external forces as well as internal elements are pressuring Japan to make difficult choices concerning its future world role.

#### PRESENT ATTITUDES TOWARDS ROLE

The U.S. first saw Japan as an expansionist, militaristic state during WWII. After WWII and the establishment of the Mutual Security Treaty, the U.S. became Japan's protectorate by dominating its foreign policy and financially supporting its reconstruction. In return, devastated by the war, Japan was content to play the role of "little brother" and political ally to the U.S.. Japan's interests coincided with the U.S.'s, that is, both wanted the reconstruction and democratization of Japan for trade and security reasons.<sup>8</sup>

One view, then, portrays Japan as a "little brother", obedient and supportive to U.S. security interests while the U.S. insures prosperity and protection from foreign aggression. That view, however, has been changing since 1960 as the burden of responsibility for world order is proving too great for the U.S.

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<sup>7</sup> "Sharing the Defense Burden with Japan: How much is enough?," Japan Economic Institute, no. 19A (13 May 1988): 3.

<sup>8</sup> Mike Mansfield, "The U.S. and Japan: Sharing our Destinies," Foreign Affairs (Spring 1989): .



to shoulder alone.<sup>9</sup> U.S. commitments are exceeding capacity in military, economic and foreign aid terms reflected in large budget deficits. Much of the frustration which coincides with this dilemma is directed toward Japan because of its huge trade surplus with the U.S.

From this development, a second American view concerning what role Japan plays in the international arena sees Japan as a "free-rider" on defense and executors of unfair trade practices. Patricia Schroeder, Chairman of the House Subcommittee on Burden-sharing cited U.S. commitments exceeding capacity and Japan's inadequate contributions as reasons why Japan should shoulder a bigger share of defense responsibility.<sup>10</sup>

These competing views stem from differing assumptions concerning common interests. James Fallows maintains that U.S.-Japanese interests clash in a fundamental way. He states that the;

...conflict arises from Japan's inability or unwillingness to restrain the one-sided and destructive expansion of its economic power. It is one-sided because Japanese business does to other countries what Japan will not permit to be done to itself. It is destructive because it will lead to exactly the international ostracism that Japan most fears, because it will wreck the postwar system of free trade that has made Japan and many other nations prosperous, and

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<sup>9</sup> For a critique of the declinist literature see Samuel P. Huntington's "The U.S.-Decline or Renewal?," Foreign Affairs (1989).

<sup>10</sup> House Committee on Armed Services, The Interim Report of The Defense Burden-sharing Panel, 100th Cong., 2nd sess., August 1988, Committe Print, 23, 62-66.

because it will ultimately make the U.S.-Japanese partnership impossible to sustain.<sup>11</sup>

Mike Mansfield, former U.S. Ambassador to Japan from 1977-89, argues that the U.S. and Japan share the same fundamental interests and objectives; "...a more secure, democratic and prosperous world." <sup>12</sup> Basing his argument on the assumption that interdependence produces uncertainty, Mansfield states that he is optimistic "because neither the U.S. nor Japan have the option of going it alone anymore. <sup>13</sup> Both sides have more to gain by cooperating on trade and defense issues than by pursuing different paths. Though they may not have common interests, pressures may force the two to cooperate. That is, in theoretical terms, cooperation based on common aversion may prevail.<sup>14</sup> Neither side wants an unstable system because their success depends on stable trade and defense relations. He cites foreign economic assistance, contributions to international organizations and regional issues as areas where the U.S. and Japan enjoy cooperation.<sup>15</sup>

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<sup>11</sup> James Fallows, "Containing Japan," The Atlantic (May 1989): 41.

<sup>12</sup> Mansfield, 13.

<sup>13</sup> Ibid., 15.

<sup>14</sup> See Arthur A. Stein, "Coordination and Collaboration: Regimes in an Anarchic World," ed. Stephen D. Krasner, International Regimes (Ithaca: Cornell University Press, 1983), 125-127.

<sup>15</sup> Mansfield, 13.

These contradictory views of Japan on both sides do not provide a consensus as to what Japan's future role ought to be. The Japanese view themselves as on the one hand a non-confrontational, isolationist nation and on the other a promoter of world peace and development. The U.S. sees Japan as a combination "little brother", political ally <sup>16</sup>, "free-rider" and opportunistic economic power. A reevaluation of history which shows that Japan's past was normal when compared to Germany's past would be useful in changing Japan's "bad" reputation.<sup>17</sup>

#### JAPAN'S POSSIBLE FUTURE WORLD ROLES

As stated earlier, both the U.S. and Japan are ambivalent towards what role Japan should play in the international system. Inoguchi's "visions of the future" encompassing the next 25-50 years present different views on "the future of global development, the distribution of economic and military power, and institutionalization for peace and development".<sup>18</sup> "Pax Americana II", "Joint Hegemony", "Pax Consortium" and "Pax Nipponica" all foresee different roles for Japan in economics, defense and foreign aid.

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<sup>16</sup> The Japanese are apprehensive toward using the term "alliance" because it implies a military role for Japan in its relationship with the U.S.

<sup>17</sup> Buzan, 566.

<sup>18</sup> Inoguchi, 16.

## Pax Americana II

Most Americans imagine the U.S. retaining its leadership role in the world and taking advantage of the institutions of order and security it created after WWII. <sup>19</sup> The image reflects the importance of international regimes and the balancing of the Western alliance while the U.S. revives "composure and confidence", combining it with "...the somber recognition of the inevitability of national decline in the longer term".<sup>20</sup> Paul Kennedy uses the term "imperial overstretch" to describe the U.S.'s current dilemma.<sup>21</sup> He maintains that U.S. military and security commitments have drained the domestic economy to the point of national decline.<sup>22</sup>

This view is popular in Japan because it allows Japan to play its traditional economic role while the U.S. continues to shoulder the burden of global security. In this scenario, Japan would be number two to the U.S.. Currently, this position is more appealing to the Japanese than Japan as number one, but how

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<sup>19</sup> Inoguchi, 19. See also Samuel P. Huntington, "The U.S.-Decline or Renewal?".

<sup>20</sup> Inoguchi, 19.

<sup>21</sup> Kennedy, 515.

<sup>22</sup> Ibid.

long this would last is unsure.<sup>23</sup> Japanese such as Koichi Kato, a prominent member of the Liberal Democratic Party (LDP), says for the next twenty years, Japan would maintain its number two position to the U.S. but after a couple of decades, Japan and the U.S. would share the lead in an "equal partnership".<sup>24</sup> Joseph S. Nye agrees that Japan is our main economic rival but states that the U.S. is likely to remain number one because it is unlikely that Japan will achieve both military and economic dominance.<sup>25</sup>

Japan would adhere to increased free trade practices, finance and increased Official Development Assistance which would benefit the U.S., ASEAN, and the European Community. Domestic and international factors will continue to restrain Japanese assertiveness in the security area, subordinating it to U.S. security leadership. Thus, the "division of labor" will remain similar to the present.<sup>26</sup> The success of this scenario depends on the scientific and technological dynamism both in the U.S. and Japan.<sup>27</sup>

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<sup>23</sup> Hobart Rowen, "The U.S. Should Accept Idea of Sharing Power With Japan," Christian Science Monitor (23 Oct. 1988).

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> Inoguchi, 20.

<sup>27</sup> Ibid., 25.

## Joint Hegemony<sup>28</sup>

Political Scientists, economists and businessmen support the idea of "joint hegemony" because it articulates the "development and integration" of the Japan-U.S. economy. The importance of this integration is supported by Robert Gilpin who states:

...As Japan has become the world's foremost creditor nation with a high yen, its internal domestic and international policies have had to change...Japan is attempting to reduce trade friction and increase its own economic stability through shifting to greater dependence on domestic economic growth. Of equal importance, however, is that the Japanese are attempting to use their newly gained financial and technological strength to create, through large exports of capital and overseas production by Japanese multinational firms, what can best be described as a new "co-prosperity sphere" in the Pacific Basin, in North America and, if the West Europeans will let them, in the European unified market...<sup>29</sup>

In this sense, integration is seen as both a process and an outcome.<sup>30</sup> It can be broken down into two types, that of economic integration and policy integration between the U.S. and other regions. This integration also creates a dependency relationship between Japan and the U.S.. Japan's economic power will be dependent upon trade within U.S. and Asian markets and its military security will be dependent upon the U.S. security

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<sup>28</sup> John W. Dower, "Dual-use technology; Japan's new military edge," The Nation (3 July 1989).

<sup>29</sup> Robert Gilpin, "Forces for Change," The Journal of Japanese Trade and Industry No.3 (1989): 29.

<sup>30</sup> For a good discussion of the distinctions made between the terms "interdependence" and "integration" see Robert O. Keohane and Joseph S. Nye, "International Interdependence and Integration," eds. Viotti and Kauppi, International Relations Theory: Realism, Pluralism, and Globalism, 364.

system in Asia. For the U.S., it will continue to need Japanese markets for exports, Japanese finance and their collaboration on high technology developments for defense. It is assumed, then, that both the U.S. and Japan will maintain common long-term interests which will allow for both economic and policy integration.

This image differs from Pax Americana II by emphasizing the fact that Japanese economic power could be translated into military power. But, the feasibility of joint hegemony depends on whether or not Japan can change its image as an imperialistic, expansionist nation to a more non-threatening one.<sup>31</sup>

#### "Pax Consortium"

This image portrays an environment where no single actor dominates the rest.<sup>32</sup> It rests on the idea of the usefulness of international regimes and the "pluralistic nature of policy adjustment among the major actors".<sup>33</sup> It resembles Pax Americana II with its emphasis on "cooperation under Anarchy" and "regimes" but it does not advocate the necessity of "moral leadership" or "administrative guidance" by the U.S.<sup>34</sup> Many Japanese support this image because it shuns military solutions to security issues

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<sup>31</sup> Buzan, 570.

<sup>32</sup> Inoguchi, 22.

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

and decreases U.S. ability to throw its weight around by focusing on the utility of international regimes. In this scenario, world order is maintained not by a hegemon, but through consensual leadership.

Japan's roles in this image include the pursuit of "quiet economic diplomacy" and the creation of a "world free of military solutions".<sup>35</sup> Regionally, Japan would be the leader of the Asian NICs, representing their economic and security interests in the international system.

### "Pax Nipponica"<sup>36</sup>

The rise in the value of the yen compared to the U.S. dollar, Japan's position as the world's largest creditor nation, superior competitiveness and foreign dependence on Japanese technology and products, and increasing nationalism support a future scenario of Japan's economic power dominating the international system.<sup>37</sup> Japan's international role as "balancer among the continental powers" depends on the elimination of nuclear weapons or development of an anti-nuclear defense system.<sup>38</sup> At present, the latter seems more feasible. Already

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<sup>35</sup> Ibid.

<sup>36</sup> Ezra Vogel, "Pax Nipponica?," Foreign Affairs (Spring 1986): 753.

<sup>37</sup> Ibid.

<sup>38</sup> Inoguchi, 23.



Japan is working jointly with the U.S. on the SDI. Because Japan's global role portrays it as the leading power, its regional role will also depict Japan similarly.<sup>39</sup> This scenario emphasizes a shift from a military to economic definition of power, thus positioning Japan as world leader.

While it is difficult to defend the importance and likelihood of each scenario, this analysis does add to an understanding of the possible directions which Japan's changing role may take. Again, Pax Americana II envisions Japan playing its traditional economic role while the U.S. continues to shoulder the burden of global security. Joint hegemony emphasizes the integration of the U.S.-Japanese economies and policies. Japan's leadership role would be primarily economic while the U.S. would maintain its political and security leadership. Pax consortium focuses on the usefulness of international regimes and the possibility that no single actor dominates the rest. Finally, Pax Nipponica portrays Japan's economic power dominating the world system as opposed to the traditional military might of the U.S. and Soviet Union.

Two polls given by the Japanese government and by academics attempt to determine what the ordinary Japanese citizen thinks Japan's role ought to be. The government poll asked the question; "What kind of role do you think Japan should play in

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<sup>39</sup> Ibid.

the community of nations?".<sup>40</sup> The 1987 poll produced the following results;

- 1) 50.4% answered Japan should contribute to the healthy development of the world economy.
- 2) 34.0% answered Japan should cooperate in the economic development of the LDCs.
- 3) 31.0% answered that Japan should make contributions in scientific, technological and cultural exchange.
- 4) 24.2% answered that Japan should make contributions in the area of international political affairs such as mediator in regional disputes.
- 5) 7.8% answered that Japan should consolidate its defense capability as a member of the Western camp.

The results indicate that most Japanese do not want their country to play a major political or security role in the world.

The academic poll asked what emphasis should the government place on different government policies.<sup>41</sup> The results included; 55.7% support for domestic economic management, 55.7% support for law and order, 45.2% support for social welfare, 44.5% feel the government should improve the standard of living, 29.7% think the government should emphasize economic power, 27.8% feel the government should focus on global economic welfare, 18.8% want Japan to target national solidarity and 11.3% feel the government should pursue national security as a top priority. These results

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<sup>40</sup> Department of Public Relations, Office of the Prime Minister, Gaiko ni kansuru yoron chosa (Opinion poll on diplomacy) (Tokyo: Office of the Prime Minister, April 1988). Cited in Inoguchi, 16.

<sup>41</sup> Joji Watanuki et al., Nihonjin no senkyo kodo (Japanese electoral behavior) (Tokyo: University of Tokyo Press, 1986). Cited in Inoguchi.

highlight top priority for domestic considerations of social and economic welfare.

These results indicate a priority given by Japanese citizens to domestic, economic and cultural issues compared to security contributions to Japan's desired international role. However, The Japanese public strongly supports increased military contributions within the limits set by the U.S.-Japan Mutual Security Treaty.<sup>42</sup> This concern is based primarily on a common distrust of the Soviet Union.<sup>43</sup>

Although Japan gives the perception that it wants to become a major world actor through diplomatic and economic means, other pressures force it to confront military issues. The government and most foreign countries want Japan to play a greater role in security issues.

For example, Ex-Prime Minister Takeshita stated at the Toronto Summit of June, 1988 that Japan should promote an image of "Japan which contributes to the world" through "international cultural exchange", "cooperation for peace" and "official development assistance".<sup>44</sup> Although this statement corresponds with domestic opinion, government actions have also appeased

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<sup>42</sup> Tetsuya Kataoka and Ramon H. Myers, Defending an Economic Superpower: Reassessing the U.S.-Japan Security Alliance (Boulder: Westview Press, 1989), 51-52.

<sup>43</sup> Ibid.

<sup>44</sup> Noboru Takeshita, "A New Impetus for Japan-U.S. Relations- Contributing More to the World" (Address delivered at a dinner hosted by the Japan-America Society of Chicago, Chicago, IL, 22 June 1988), 5.

foreign demands. Japan agreed to collaborate with the U.S. on development of the FSX fighter planes, gave monetary assistance to U.S. surveillance of the Persian Gulf, and increased its military budget beyond the 1% of GNP barrier. Thus, one can see the Japanese government struggling to satisfy both domestic and foreign demands. Japanese leadership seems to react to these demands rather than initiating change. Whether or not the new government and prime minister are able to effectively lead Japan in both defining its new role and fulfilling it remains questionable.

#### CONCLUSION

As the Japanese people and certain government officials expressed, Japan wants to emphasize its economic and cultural role in international society. It recognizes the need to assume more responsibility for world stability but through diplomatic and economic rather than military and security means. Although the rhetoric may sound idealistic, Japan pursues its interests according to cost and benefits analysis. They reason that it is far more beneficial to pursue economic interests of increased trade and business ventures in order to create a strong Japan than to spend huge sums of money on military hardware.

How to assume this leadership role without spurring internal and external opposition, however, remains a dilemma. Its past expansionist, imperialistic reputation remains an obstacle to

cooperation both between Japan and the U.S. and between Japan and the international community. Members of ASEAN, China and to a certain extent, the U.S. fear a resurgence of Japanese military might based on its economic power. As Japan struggles to define its new role, the current uncertainty limits prospects for cooperation.

The problem of defining a new role relates to the development and implementation of policy. Because an increasing number of internal and external interests are involved, clear definitions of goals and thus policies designed to achieve them are difficult to establish. The following chapter examines the perceptions of and misperceptions about Japanese and U.S. interests which complicate their relations.

## CHAPTER 3

### BURDEN-SHARING: AN AMERICAN POLITICAL CONCEPT OF INTERDEPENDENCE

#### INTRODUCTION

The previous chapter examined Japan's changing world role. Specifically, it analyzed the constraints to its internationalization, the differing views of the roles it plays, and various future scenarios of its world role. The results show Japan's intention to assume a responsibility for world stability through economic and diplomatic, rather military, means. However, U.S. demands that Japan spend more on defense, thereby sharing this burden with the U.S., conflicts with this view.

The following chapter will discuss the concept of "burden-sharing" by focussing on the bilateral relationship between the U.S. and Japan. First, I will briefly trace the evolution of "burden-sharing" from the late 1960s to the present. Over time, the definition of the concept changed to fit the political and security concerns of the U.S. The second section will further discuss connotations of "burden-sharing" as a political concept and introduce "comprehensive security cooperation" as an alternative conceptual approach. The conclusion will show the relationships among "cooperation" as a goal and "burden-sharing" and "comprehensive security" as approaches to the current discord. Because burden-sharing is based on the ambiguous idea of "fairness", it affects conceptions of cooperative arrangements. Arguments over approaches to cooperation in three

fields; defense, trade and finance, and foreign aid, jeopardize possibilities of mutual adjustment between the U.S. and Japan.

The U.S. coined the term "burden-sharing" as a principle embodying a specific U.S. approach to facilitate cooperation in an interdependent world. The concept advocates greater security contributions by Japan to its alliance with the U.S. These demands were established to alleviate the pressures involved with being both a military and economic world power. It is also intended to serve as a strategy through which the U.S., concerned about the slow-down of its economic expansion and Japan, overwhelmed with demands from the international community to assume a leadership role, could coordinate their policies in order to achieve common objectives.

As the U.S. economy expands less rapidly relative to that of other states, namely Japan, its capacity to maintain overseas military, trade and foreign aid commitments has decreased. Given this unstable condition, the U.S., according to Samuel P. Huntington, faces the choice of; retrenching its commitments, decreasing threats through diplomacy, demanding increased contributions by its allies ("burden-sharing"), increasing its military power and spending, replacing comparatively costly power with cheaper power or developing a strategy to display its

capabilities.<sup>1</sup> In response to these alternatives, the U.S. is focussing on "burden-sharing" as a priority.<sup>2</sup>

## DEFINITION AND EVOLUTION OF CONCEPT

### Past

Burden-sharing in the past was based on a more stable relationship between the U.S. and Japan.<sup>3</sup> The term itself was conceived in the early 1960s as a response to the high costs of U.S. military commitments in Vietnam.<sup>4</sup> Congress wanted to reduce U.S. troops and to ask allies to "help us out" in the effort to fight the communist insurgency in South Vietnam.<sup>5</sup> In this context, Japan, because of its relatively weak position both in the international system and in its relationship with the U.S., did not think of "burden-sharing" in terms of "power-sharing".

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<sup>1</sup> Samuel Huntington, "Coping With the Lippman Gap," Foreign Affairs, vol. 66, no.3 (1988): 456.

<sup>2</sup> See House Committee on Armed Services, The Interim Report of the Defense Burdensharing Panel.

<sup>3</sup> However, as John W. Dower points out in "Dual-use Technology; Japan's New Military Edge," p. 18, U.S. policy toward Japan was set in an "explicit context of institutionalized mistrust". He refers to the 1947 Peace Constitution imposed upon Japan, The Mutual Security Treaty of 1951-52, and joint operational studies concerning Japan's defense capabilities as evidence of U.S. mistrust towards Japan.

<sup>4</sup> "Sharing the Defense Burden With Japan: How Much is Enough?," Japan Economic Institute, no. 19A (13 MAY 1988): 2-3.

<sup>5</sup> Ibid.



Because of their increasing economic strength compared to the U.S.'s, however, the Japanese are changing the meaning of burden-sharing to include influence in decision-making with the U.S..

By 1978-79 a series of international conflicts, namely the Iranian Revolution and the Soviet Invasion of Afghanistan, required U.S. responses. They raised the need for costly security outlays and caused the U.S. to demand that allies contribute to the "burdens of mutual defense" commensurate with their economic capabilities.<sup>6</sup>

In the 1980s, huge budget and trade deficits, \$1 trillion and \$53.8 billion (with Japan) respectively, are causing the U.S. to reevaluate its overseas commitments. The U.S. believes it can no longer carry the costs of its national security interests alone. Therefore, the U.S., especially Congress, believes that Japan should spend more money on its own defense.

Japan, on the other hand, faces many obstacles constraining its ability to answer demands for a military buildup. Its constitution renounces war and the Mutual Security Treaty concluded after WWII limits Japan's army to defensive capabilities. The government's 1976 decision to limit defense spending to 1% of GDP, domestic criticism based on memories of WWII and external fears of a remilitarized Japan have made it difficult for Japan to answer U.S. demands.

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<sup>6</sup> Ibid.

## Present

Burden-sharing is now linked to trade disputes which include elements of distrust not previously encountered in the Japanese-U.S. relationship. Today's fears and suspicions do not just represent a new level of misunderstanding. Rather, they are "rooted in very real and rapid transformations in the basic structures of power and influence".<sup>7</sup>

Whether or not and how to share the costs of U.S. overseas commitments are recurrent issues between the U.S. and Japan. They are also highly emotional issue because the U.S.'s position has not improved despite negotiations and economic policies designed to reduce the trade deficit.<sup>8</sup> Japan continues to maintain huge trade surpluses which makes it an easy target for U.S. criticism concerning the fair and equitable sharing of world responsibilities.

Both in the past and present people have interpreted burden-sharing differently. Traditionally, alliance management and burden-sharing denoted similar meanings. They both were conceived strictly in military terms based on common security interests. In this context, trade and economic issues were separated from military considerations.

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<sup>7</sup> Dower, 18.

<sup>8</sup> However, the volume of U.S. exports, as opposed to the value, has actually increased, leading some Japanese to accuse the U.S. of exaggerating the situation.

Today, however, the concept of "burden-sharing" takes on a number of meanings most often stated by government officials of both the U.S. and Japan. Within the U.S., Richard L. Armitage, former assistant secretary of defense for international security affairs, defined burden-sharing as "...a more equitable sharing of the roles, risks, and responsibilities of the defense of the free world...burden-sharing for democracy".<sup>9</sup> Referring to "defense", he emphasizes the original military aspect of the phrase which focuses on common security interests. But "burden-sharing for democracy" places the U.S.-Japan relationship in the context of the post-WWII thinking where the containment of communism and the spread of Democracy were the primary goals which reflected world order. Today, many argue that the U.S. should abandon its Cold War policies and focus on economic development as a means to achieve world order.

Former Treasury Secretary James Baker III has expressed the opinion that Japan and Western Europe should share the burden of U.S. costs abroad not just in political and national security terms, but also in economic areas by pursuing free trade practices. His comment indicated the first time that "burden-sharing" had been discussed by the Administration in an economic sense.<sup>10</sup> Finally, Representative James H. Scheuer, Senator Paul Sarbanes and James Baker all agreed that Japan could transfer

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<sup>9</sup> Richard L. Armitage, "Enhancing U.S. Security In the Pacific," Christian Science Monitor, 30 August 1988.

<sup>10</sup> Peter Kilborn, "Baker is Weighing a Shift in Military Costs to Japan," New York Times, 10 March 1988.

some of its savings from military spending to increased foreign aid to developing countries.<sup>11</sup> Their approach would give burden-sharing an enhanced meaning compared to its traditional military emphasis.

In contrast, the Japanese emphasize economic and foreign aid aspects of cooperation. They use the term "comprehensive security" rather than "burden-sharing" as a foreign policy approach. The former includes diplomatic leadership, foreign economic assistance targeted to strategic areas and strengthening of its military within the limits of the security treaty. This emphasis coincides with the type of role the Japanese hope to play in the future. Already, because of the rise in value of the yen, Japan surpassed the United States as the world's number one donor of Official Development Assistance (ODA) with \$10 billion in 1988. Ex-Prime Minister Noboru Takeshita stated that Japan would act according to its "concept of international cooperation" used to define Japan's emerging world role. This concept is based upon programs of international cultural exchange, cooperation in the cause of peace and increased development assistance.<sup>12</sup> Former Prime Minister Sosuke Uno and Foreign Minister Hiroshi Mitsuzuka stated that they would continue Takeshita's foreign policy which calls for Japan to make a greater contribution to "global peace and stability" by expanding

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<sup>11</sup> Ibid.

<sup>12</sup> The Liberal Star, 10 February 1989, 2.

its economic assistance to developing nations.<sup>13</sup> Currently, opposition parties within the Japanese Diet, the Japanese Parliament, claim that they would use foreign aid as their main diplomatic tool if their party were elected into office.<sup>14</sup> This rhetoric coincides with Japan's efforts to increase ODA as a response to external pressures.

As stated earlier, the Japanese are reluctant to assume a military leadership role and are more willing to display world leadership in economic areas. However, the government is not denying that it wants to be a major military actor, as opposed to military power, in its relationship with the U.S.. Leadership also includes active participation in decision-making. Thus, In addition to sharing the burden, the Japanese government also reiterates "power-sharing", something the U.S. supports in theory but not in practice. Mr. Kuroda, former Vice Minister of MITI, gives a common Japanese view of burden-sharing as being "the other side of the coin of 'power-sharing'".<sup>15</sup> This term refers to the sharing of decision-making powers in defense, trade and foreign aid matters with the U.S. and within international organizations where the U.S., as founder of most international

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<sup>13</sup> "Foreign Minister Discusses Bilateral Ties" The Japan Times, 4 June 1989, trans. Foreign Broadcast Information Service, 9 June 1989, 1.

<sup>14</sup> "LDP, Opposition Disagree on Use of Aid," The Japan Economic Journal, 20 May 1989, trans. Foreign Broadcast Information Service, 25 May 1989.

<sup>15</sup> Susan Chira, "Japan Ready to Share Burden, But Also the Power, With U.S.," New York Times, 7 March 1989.

organizations, dominates the decision-making processes. Analyzing the different interpretations of the concept of burden-sharing over time, therefore, reveals the importance of context, i.e. values and perceptions, in shaping the meaning of the term.

### CONCLUSION

Burden-sharing seeks the "fair" and "equitable" distribution of the responsibilities of maintaining a stable bilateral relationship. However, the term "fair" is not easily defined or measured. To define what is universally "fair" is difficult because of varying cultures and values which assist in determining individual state rules and objectives. Different views of "fairness", as shown in the U.S.-Japanese case, promote conflict.

In order to clarify the U.S. position, it is easier to examine what the U.S. sees as unfair. In the defense area, even though it has been the norm, the U.S. Congress basically does not think it is fair that Japan spends only 1% of its GNP on defense while the U.S. spends 7%. In trade, dumping, subsidies, tied exports, restrictions on market access, cartels, "copying" (technology transfer), and "stealing" (patents) are just a few examples of current accusations of "unfair" Japanese trading practices.<sup>16</sup> In foreign aid, tying aid to the purchase of

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<sup>16</sup> Ellen J. Frost, For Richer, For Poorer: The New U.S.-Japan Relationship (New York: Council on Foreign Relations, (1987), 18.

imports from Japan without opening its own markets is unfair because this practice works against the norm of "reciprocity" in trade. Other examples of what Americans consider to be "unfair" competition include size, where a bigger competitor is considered to have an "unfair" advantage over a smaller one, secrecy as compared to "transparency", government intervention, and lack of initiative towards assuming world responsibilities or "free-riding".<sup>17</sup>

Ellen Frost raises the question: "To what extent does fairness consist of universally applicable norms and values, and to what extent is it the product of a unique culture and history?"<sup>18</sup> One can argue that it is only "fair" that Japan, as a member of GATT, should adhere to its principles, norms and rules. GATT is based on the belief that free trade will promote the economic development of all members. The substantive norms include liberalization, reciprocity, nondiscrimination and economic development.<sup>19</sup>

Japan and the U.S. maintain unique cultural values which influence how they conduct business and form policy. These

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<sup>17</sup> Ibid., 18-19. Transparency here is used to describe U.S. openness in terms of exposing how the government formulates policy and how businesses interact. It is claimed that Japan develops policy and conducts business too secretively, preventing foreign access to information which could benefit them.

<sup>18</sup> Ibid.

<sup>19</sup> Jock A. Finlayson and Mark W. Zacher, "The GATT and Regulation of Trade Barriers," in International Regimes, ed. Stephen D. Krasner (Ithaca: Cornell University Press, 1983): 288.

cultural norms should not be criticized. What should be criticized is the clear breaking of norms and rules of international regimes to which Japan and the U.S. belong such as the GATT. However, the distinction between cultural and universal norms is not easily made, which distorts any measurement of "fairness". For example, the U.S. is negotiating the reduction of Japanese structural impediments to trade which include, among other things, its domestic distribution system. Japan, however, argues that its distribution system is a unique cultural characteristic and should not be criticized.

Assuming what is considered "fair" is to abide by GATT norms and rules in trade, World Bank norms for disbursement of ODA and bilateral arrangements in defense, many in the U.S. claim that Japan is following unfair practices. Congress and businessmen claim that Japan is violating GATT liberalization and reciprocity norms, WB norms of economic development and defense norms of contributing to the alliance "according to ability".

The current discord stems from the perception that Japan is following policies which violate these norms while the U.S. is unable or unwilling to adapt its policies to changing norms due to shifting capabilities. As Keohane notes, the only way actors can achieve cooperation is if their "policies become significantly more compatible with one another".<sup>20</sup> The U.S.'s

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<sup>20</sup> Robert O. Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (Princeton: Princeton University Press, 1984): 53.



answer to the problem of achieving cooperation with Japan in a world of shifting capabilities is through "burden-sharing".

This policy, however, is inappropriate because it seeks a cooperative arrangement based on quantitative measures of equality. Congress is, in effect, seeking to maintain the current form of cooperation by insuring its dominant position in issue areas, while at the same time demanding that Japan spend more on defense and foreign aid. This approach may not be the best solution. Cooperative arrangements are not always "good" or "equal", rather, they are based on relative power shifts and mutual interests in addition to other factors. In this case, context matters. As U.S. influence declines relative to Japan, and as Japan's influence increases, policies must adjust to the changing situation to avoid friction. Therefore, the best alternative in terms of sharing the burden within issue-areas is one which takes into account the shifts in power and the accompanying influence. Politically, however, conflicting self-interests are preventing this approach. The U.S. is not willing to admit its loss of influence while Japan does not know how to react to its newfound wealth.

In contrast to burdensharing, some experts prefer to use the term "comprehensive security cooperation" because it connotes mutual rather than unilateral adjustment.<sup>21</sup> Rather than offering normative prescriptions, the defense burden-sharing panel of the Committee on Armed Services should have formed recommendations as

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<sup>21</sup> Dalton A. West, interview with author, 21 June 1989.

requests or proposals. In addition, the language is less offensive to the Japanese and the concept represents an approach which reassesses the U.S. security relationship with Japan. This reassessment, analysts argue, should be based on a more dynamic approach using roles and missions and should be based on additional foundations for security cooperation, not just threat perceptions.<sup>22</sup>

The next chapter will present a more detailed analysis of burden-sharing as it is currently used, that is, the expansion of the strategy to include military, trade and finance, and foreign aid areas. Although an analysis of the present views may repeat those stated in the definition, a deeper discussion will clarify the current burden-sharing debate and hopefully shed some light concerning future possibilities of and limits to U.S.-Japanese cooperation.

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<sup>22</sup> West, "Burden-sharing in the Asia-Pacific: a Partial Review of the Interim Report of the House Armed Services Panel on Burdensharing" (U.S. Global Strategy Council, Washington, D.C., 1989), 5.

## CHAPTER 4

### ISSUE AREAS, ISSUES AND LINKAGE: POSSIBILITIES OF AND LIMITS TO U.S.-JAPANESE ADJUSTMENT

The last chapter identified burden-sharing as the major U.S. approach to maintaining order in a world of shifting capabilities. The Japanese approach to stability is based on the concept of "comprehensive security". The fundamental difference between the two approaches is the degree of emphasis placed on military, economic and foreign aid areas. The U.S. Congress continues to emphasize military aspects of cooperation while Japan focuses on diplomatic and foreign aid areas. At the root of the dispute is shifting economic power and current friction in trade relations. The following chapter details the U.S. - Japanese relationship in military, trade and finance, and foreign aid areas and attempts to show the complex interdependence of the issues.

## MILITARY

### Introduction

In the early postwar period, the U.S. and Japan produced a constitution for Japan and a security treaty. These two arrangements effectively transferred responsibility for the defense of Japan to the U.S. This act in turn allowed Japan to

concentrate on its own economic development.<sup>1</sup> Even though factions in Japan allowed its defense industry and Self-Defense Force to grow, the growth rate was slow so that in the 1980s, Japan remains dependent upon the U.S. for its national security.<sup>2</sup> The U.S. accepted this reciprocal arrangement where it would defend Japan and maintain safe sealines of communication in exchange for base rights and Japan's support of U.S. foreign policy.<sup>3</sup>

Today, the context of this reciprocal arrangement is changing as U.S. trade and budget deficits are causing Congress to question the fairness and equity of these arrangements. Congress states that the

...bottom line to the burden-sharing debate...is how to guarantee the economic and military security of the United States and its allies in the 21st century and ensure that developed countries with mutual defense interests share the cost of that defense on a more equitable basis and contribute more equitably to the security, economic and political well-being of less developed countries <sup>4</sup>...

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<sup>1</sup> This strategy is known as the Yoshida Doctrine. Yoshida, Prime Minister after WWII, followed the strategy of economic development so that eventually Japan would not have to depend on the U.S. for aid and defense.

<sup>2</sup> Tetsuya Kataoka and Ramon H. Myers, Defending an Economic Superpower (Boulder: Westview Press, 1989), 103.

<sup>3</sup> Ibid. Also, for a good discussion of the "reciprocity" principle as both a policy and system of patterned behavior which promotes cooperation, see Robert O. Keohane's article "Reciprocity in International Relation," International Organization 40, 1 (Winter 1986).

<sup>4</sup> House Committee on Armed Services, The Interim Report of the Defense Burdensharing Panel, 4.

With this goal in mind, questions arise concerning the U.S.-Japanese future relationship. The three main questions concerning defense are:

- 1) Should Japan pay for its own defense?
- 2) Should Japan share, with the U.S., the cost of defending itself against foreign aggression?
- 3) How much military expenditure is enough?

In this section I will outline the main arguments concerning these questions including the limits to and possibilities of cooperation. First, should Japan pay for its own defense? Before answering this question, it is necessary to give some statistics concerning Japan's defense expenditures, specifically, those allocated for 1989 compared to the amount spent in 1988.

### Statistics

Currently Japan spends 1.004% of its GNP on defense. This amounts to 3.9 trillion yen or \$30 billion, one-tenth of total U.S. defense spending which equals \$300 billion.<sup>5</sup> However, it does mark a 5.9% increase from 1988 expenditures. Of the \$30 billion, about \$16 billion will be spent on "on-the-front"

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<sup>5</sup> Fallows, "Let Them Defend Themselves," The Atlantic (April 1989): 18.

defenses and logistics for Japan's 250,000 man Self-Defense Force (SDF), a total increase of 16% over 1988. In addition, about \$1.03 billion, an 18.3% increase over 1988, is set aside for defense burden-sharing with the U.S.. Specifically, this amount is targeted towards support for U.S. armed forces in Japan and maintenance of facilities.

The 1986-90 Mid-Term Defense Plan, the third of such five-year plans which began in 1976, attempts to meet the goals set in 1976 by Takeo Miki's National Defense Program Outline. The plan maintains a budget of \$147.2 billion over 5 years. It focusses on improving and expanding Japan's air defenses, anti-submarine warfare, ground force response to manned invasion, and command, communications, intelligence and reconnaissance.<sup>6</sup> Japan plans to deploy domestically designed and manufactured surface-to-air missiles which could intercept invasion forces far before they reach the islands. In addition, funding for the next generation fighter support aircraft (the FSX) and an over-the horizon radar site for defense against long-range Soviet Backfire bombers mark major changes in Japan's defense policy.<sup>7</sup> The new radar site signals the first time Japan has not purchased a weapon strictly for its own defense. The radar will be part of a chain of

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<sup>6</sup> "Sharing the Defense Burden With Japan: How much is enough?", 6. It specifically calls for Japan to purchase 50 P-30 anti-submarine warfare patrol aircraft, 63 F-15 fighters, 7 C-130 transport aircraft, 6 Patriot surface-to-air missile systems to replace outdated Nike missiles, 9 destroyers and 5 submarines.

<sup>7</sup> Ibid., 8.

stations beginning in Alaska stretching to the Philippines.<sup>8</sup> The FSX is the first major co-production defense project between Japan and the U.S.. Thus, much has been done already to meet "roles and missions" approaches to Japan's defense spending. These actions will help Japan meet its mission to defend its sealanes out to 1,000 nautical miles and improve its air defenses.

Other categories where Japan has made progress in sharing the responsibility for its defense include: host nation support; joint planning and maneuvers, defense co-production and technology transfers, and official development assistance (ODA).<sup>9</sup> Under the U.S.-Japan Mutual Security Treat, Japan provides base facilities for U.S. forces. They are used for both Japanese security and forward deployment of U.S. forces into the Asian Pacific.<sup>10</sup> Japan's 1988 defense budget set aside \$46,500 for each of the 55,000 U.S. personnel, which is 40% of the \$6 billion cost of maintaining the forces.<sup>11</sup>

Despite these statistics which show increased spending by Japan on its defense, most members of Congress say it is not

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<sup>8</sup> Ibid.

<sup>9</sup> Ibid., 8-11.

<sup>10</sup> Ibid., 8.

<sup>11</sup> According to the Interim Report of the Defense Burdensharing Panel, 63, this figure of \$46,500 per U.S. serviceman is overestimated because it includes such intangibles as the value of real estate. With this amount subtracted, the total spent per serviceman becomes \$32,000 which is still higher than any NATO country's support of U.S. servicemen.

enough.<sup>12</sup> They cite the fact that Japan spends only 1% of its GNP on defense compared to the U.S.'s 7% GNP as the major inequality.<sup>13</sup>

## Arguments

### a. Linkage

Although groups within the U.S. such as Congress, the Administration and businesses all support the goal of a stable, cooperative, bilateral relationship with Japan, they do not agree on the causes of instability. The Congressional approach links the trade deficit to military spending. Specifically, high U.S. military expenditures on global security has created the huge trade deficit. Japan, it says, uses the money it saves from its "free ride" under U.S. security arrangements to become more competitive in commercial relations which is detrimental to U.S. industry. Japan should spend more of its savings on defense.

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<sup>12</sup> The Burden-sharing panel uses a measurement known as a state's "ability to contribute". This includes its population and GDP shares of the U.S.-Japan-NATO alliance. Japan, according to this measurement, is not contributing its "fair" share. Out of the total percentage of contributions by the U.S., Japan and NATO members, Japan contributes 2% of total defense personnel, 3% of ground forces, 3% of tactical combat aircraft, 3% of naval ship tonnage, no strategic nuclear warheads and s% of airlift aircraft. Ibid., 32.

<sup>13</sup> However, one comes to different conclusions when comparing the amount of Japan's expenditures using NATO's system of accounting. Using this system, Japan actually spends, 1.7% of GNP which is much closer to the amount spent by NATO members.



This would take resources away from economic competitiveness and reduce the Japan-U.S. trade gap. This argument appeals to domestic interest groups including those that have lost because of Japanese competition.<sup>14</sup>

This type of linkage, between issue areas rather than issues themselves, can be characterized as tactical.<sup>15</sup> In order to gain leverage in the trade dispute, Congress is including defense spending imbalances as an issue in its argument. They threaten that the U.S. may withdraw troops from Japan and let them pay for their own troops if Japan does not assume more responsibility. Japan maintains that it is not the lack of military spending on its part and U.S. overspending which is causing the U.S. to lose its predominance. The U.S. budget deficit is ultimately causing the U.S. trade deficit. Knowledge concerning the causes of instability plus differing goals may prevent a cooperative arrangement. The Japanese government criticizes the U.S. Congress for interpreting the common goal of world order to mean maintaining the status quo, or U.S. hegemony. Japan, on the other hand is criticized for its ambivalence toward assuming more responsibility.

#### **b. Roles and Missions**

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<sup>14</sup> "Sharing the Defense Burden with Japan: How much is enough?," 5.

<sup>15</sup> See Ernst Haas, "Why Collaborate? Issue Linkage and International Regimes," World Politics (1987): 372.

The administration approach, although recognizing the importance of economic shifts and their effects on military security, does not link security with trade or other economic issues. Rather, it takes a "roles and missions" approach to the problem which is motivated by strategic concerns. This "roles and missions" approach is synonymous with the concept of "comprehensive security cooperation" rather than "burden-sharing". In other words, cooperation is based on identifying common interests of military and economic security rather than unilaterally forcing demands based on quantitative measurements of fairness and equality.

In a 1981 joint communique between Reagan and then Prime Minister Suzuki, both emphasized that certain expenditures should fulfill "mutually acceptable defence goals".<sup>16</sup> Thus, defense spending should be linked to national security needs, not to budget deficits. This represents a substantive linkage approach where most experts believe that military expenditures should be disbursed according to security interests.<sup>17</sup> This type of linkage could be more conducive to a successful arrangement because Japan and the U.S. maintain similar national security interests which are based on a common Soviet threat in Asia.

The roles and missions approach states specifically, that the U.S. should continue to provide a nuclear deterrent and

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<sup>16</sup> "Sharing the Defense Burden with Japan: How much is enough?," 4.

<sup>17</sup> For an explanation of substantive linkage, see Haas, "Why Collaborate? Issue linkage and International Regimes".

offensive strike force in the Northwest Pacific. Japan should strengthen its security of territory, coastal waters, airspace and sealanes 1,000 miles south and east. Finally, the U.S. should maintain security commitments to Korea and protect the sealanes beyond the Northwest Pacific, or, oil routes.<sup>18</sup>

This argument criticizes Congress' approach to the problem. First, the argument implies that Congress does not take into account effects of Soviet activities on U.S.-Japanese security needs. Second, there is no proof that increased defense spending would "hurt" Japan's economy and help the U.S.. Joint research and development of dual-use technology could actually help both economies. In addition, Fiscal and monetary policy plus microeconomic factors also contribute to the state of the economy. Third, defense spending is not zero-sum, that is, Japan cannot substitute for U.S. military expenditures, it can only complement them.<sup>19</sup> Costs on both sides are rising and "...the point is, U.S. resources will also be needed for U.S. tasks. Both countries will have to continue to do more to meet their responsibilities".<sup>20</sup> Finally, the Congressional approach does not stipulate exactly how an increase in Japanese expenditures should be spent. Thus, internal disputes regarding U.S.-Japan

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<sup>18</sup> Larry A. Nicksch, "Japan-U.S. Relations in the 1990s," Congressional Research Service, 89-264F (7 April 1989): 19.

<sup>19</sup> "Sharing the Defense Burden with Japan: How much is enough?," 5.

<sup>20</sup> Ibid.

defense policies limit the U.S. in its ability to clearly articulate its demands.

Japan is limited by both domestic and external opinion and article IX of its constitution which states that Japan will forever renounce war and the "threat or use of force as a means of settling international disputes".<sup>21</sup> In light of these constraints, Japan has followed the approach of responding to U.S. demands one by one rather than taking the initiative in formulating its own defense policies. The fact that Japan has responded to U.S. demands, although in increments, can be seen as a form of cooperation. Because trade frictions are so high, however, Japanese progress on defense is frequently overlooked by Congress.

In answering the second question, then, Japan is sharing the burden with the U.S. of defending itself but many argue it is not enough. How much is enough, then? This is a difficult question to answer considering the various proposals which have been submitted.

Both the House and the Senate continue to focus on GNP as a measure of Japan's contribution to cost-sharing. They drafted a resolution calling on Japan to spend 3% of its GNP on defense and to pay a "defense protection fee" or tariff on all goods shipped to the U.S. which equals the difference between U.S. defense expenditures and Japanese defense expenditures.<sup>22</sup> Congress makes

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<sup>21</sup> See Japanese constitution.

<sup>22</sup> Fallows, "Let them defend themselves," 17.

a direct link between the lack of burden-sharing in military terms and the U.S. trade deficit.

The Department of Defense and the Administration denies this link and, as stated earlier, emphasizes linkage of defense expenditures according to national security interests. These interests involve a common perception between the U.S. and Japan of a strong Soviet threat.<sup>23</sup> Thus, the question of how much is enough must be weighed according to this perception plus external and internal limitations to adjustment.

#### Possibilities of and Limits to Cooperation

Japan's defense budget has increased from \$9.82 billion in 1980 to \$30.87 in 1989 at an annual average growth rate of 6%. Its ability to rapidly increase expenditures, espoused by the U.S. Congress' 3% target, is severely limited by national security needs, the Mutual Security Treaty and public perceptions. However, possibilities for cooperation in the security area exist in the form of increased ODA to strategically targeted areas, defense technology transfers, joint development projects, increased host nation support, and dual technology.<sup>24</sup>

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<sup>23</sup> West, Burdensharing in the Asia-Pacific: A Partial Review of the Interim Report of the House Armed Services Panel on Burdensharing, 7.

<sup>24</sup> Dower in "Dual-use Technology", discusses spin-off and spin-on effects of dual technology. Technology developed for commercial use by Japan can produce "spin-on" effects which contribute to the joint development of defense technology. Defense technology can also have "spin-off" effects, contributing

Despite current criticism that Japan is not spending enough on its own defense, a closer look at the facts indicates that Japan has markedly increased its defense spending and plans to continue the increase at a 5-6% annual rate.<sup>25</sup>

It is apparent that until the trade deficit is balanced or improved dramatically, Congress will continue to focus on the military "burden-sharing" debate as a way to achieve cooperation in the trade dispute.

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to higher technology for commercial use. These effects are thought to benefit both the U.S. and Japan economically and militarily.

<sup>25</sup> See Nikshe' Japan-U.S. Relations in the 1990s.

## TRADE AND FINANCE

The U.S.-Japanese interdependent relationship in trade and finance is also undergoing a transformation. The past asymmetries, where Japan was dependent upon the U.S. for both an open market and continuous supply of dollars, are shifting. Today, the U.S. depends on Japan to finance its budget deficit and on a market for its goods.

### Statistics

In 1988, trade between Japan and the U.S. equalled \$130.6 billion. The U.S. is Japan's number one trading partner while Japan is the U.S.'s number two partner. Japan is a major market for U.S. agricultural products, raw materials like wood, and U.S. aircraft. Japan is the major supplier of automobiles, consumer electronics, telecommunications equipment and computers to the U.S..<sup>26</sup>

In 1985, Japan became the world's largest creditor nation while the U.S. became the world's largest debtor. Japan is a major investor in the U.S., purchasing \$136 billion worth of U.S. government securities to finance the U.S. budget deficit, \$10.6 billion worth of U.S. stock and directly investing up to \$23.4 billion in manufacturing, retailing and service industries.<sup>27</sup> In

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<sup>26</sup> See Nixshe's, Japan-U.S. Relations in the 1990s.

<sup>27</sup> Ibid.

the early 1980s Japan decided to support the U.S. financially in order to create a market for its exports and because of high U.S. interest rates.<sup>28</sup> However, as Gilpin points out, "...in the long run, political concerns and interests will determine the willingness of Japan to continue financial support of American hegemony and prosperity".<sup>29</sup>

Although these figures indicate a form of interdependence and cooperation, the main statistic, the U.S. \$53.8 billion trade deficit with Japan, represents the source of the current U.S.-Japanese friction. The trade deficit has increased from \$19.3 billion in 1982 to \$55.7 billion in 1988. This condition has spurred the U.S. Congress to pressure Japan to open its markets to foreign goods.

### Arguments

#### a. U.S. Congress

Burden-sharing in terms of trade demands that the actors "play fair" by maintaining the free market system based on unimpeded competition. The U.S. accuses Japan of restricting foreign access to its markets, dumping, government intervention in the form of subsidies and export credits and structural

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<sup>28</sup> Robert Gilpin, The Political Economy of International Relations (Princeton: Princeton University Press, 1987), 338.

<sup>29</sup> Ibid.



impediments such as its tax and distribution systems. Thus, Japan, they say, is not playing by the rules or according to a "level playing field".<sup>30</sup> They are protecting their own industries from foreign competition and at the same time are benefiting from the free market system.<sup>31</sup> These obstacles have prevented the U.S. from increasing its exports and, in turn, foreign exchange earnings. Without more foreign exchange, the U.S. has been unable to bridge the trade gap with Japan and its own budget deficit. Because of these changes, the U.S. is demanding that Japan operate according to the principle of "reciprocity".<sup>32</sup>

This U.S. demand has sparked a debate over whether to employ the "reciprocity" approach or a "national treatment" policy. "reciprocity" suggests that American companies in Japan should be treated in exactly the same way as Japanese companies are treated in the United States. Or, because the U.S. maintains free markets, so should Japan. "National treatment" implies that businesses operating in a foreign country will be subject to that states laws and rules, thus preserving the sovereignty of each state.

#### **b. Japan**

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<sup>30</sup> Clyde H. Farnsworth, "U.S. Cites Japan, India and Brazil as Unfair Traders," New York Times, (26 May 1989).

<sup>31</sup> James Fallows, "Containing Japan," The Atlantic (May 1989): 44.

<sup>32</sup> See Keohane's "reciprocity and International Relations" for explanations of specific and diffuse reciprocity.

Japan maintains that the U.S. cannot compete with them in terms of product quality, service and price. Further, the U.S., they say, is preoccupied with keeping its hegemonic position in the international system, not fair competition.<sup>33</sup> The U.S. has imposed quotas and tariffs on Japanese products, so how can the government espouse free market principles? In addition, the U.S. has not seriously confronted the budget deficit problem. Instead of using Japanese success as a target for criticism, the U.S. should improve its own economy and competitiveness. Instead of focussing on short-term planning and profits, U.S. businessmen should plan according to long-term goals of creating a strong competitive base through improved productivity and technology.

#### **U.S., Japanese Approaches to the Trade Disputes**

Since the 1985 Plaza accord, when the G-7 agreed to stabilize foreign exchange rates, the U.S. has tried to reduce the trade deficit in two ways. First, its macroeconomic policy supported a low dollar and high yen in order to increase exports and force the Japanese economy to become more import-oriented. However, this policy has not achieved short-term success. Although U.S. exports have risen, so have Japanese exports to the U.S., especially of capital goods. Second, U.S.'s microeconomic

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<sup>33</sup> Hobart Rowen, "The U.S. Should Accept the idea of sharing power with Japan," The Washington Post (23 October 1988).

policy favored sector-by-sector negotiations with Japan in the semi-conductor, telecommunications and automobile parts industries in order to gain entry to Japan of products where the U.S. has a competitive edge. This approach has also failed to improve the U.S. trade imbalance.<sup>34</sup>

Because of the apparent failure of these approaches, President Bush outlined a new approach in June of 1989, known as the "structural impediments initiative" (SII). This new approach is designed to force Japan to eliminate invisible market barriers to trade and finance. These include: rotation of contracts among Japanese construction firms<sup>35</sup>, manufacturing companies' strong control over suggested retail prices, and differences in the price of manufactured goods in and outside the U.S.<sup>36</sup> Structural adjustments in Japan include altering customary business practices such as the "Keiretsu", a system of interlocking shareholdings. In the U.S., adjustments include altering the social systems such as education and labor-management as a way to open markets and to promote international competitiveness.<sup>37</sup> However, the method of achieving these adjustments is still unclear.

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<sup>34</sup> Sumio Kido and Yuko Inoue, "U.S. trade focus blurs big picture," Japan Economic Journal 26 June 1989.

<sup>35</sup> This system is known as "dango".

<sup>36</sup> Sumio Kido and Yuko Inoue, "U.S. Trade Focus Blurs Big Picture."

<sup>37</sup> Ibid.

Another approach, this time initiated by Congress with much less support from the president, is characterized as "results oriented" where the U.S. is seeking more direct measures to improve the trade deficit. Passage of the Super 301 clause of the Omnibus Trade and Competitiveness Act of 1988 give Congress and the U.S. Trade Representative more direct influence in trade disputes. The clause transfers authority from the President to the U.S. Trade Representative (USTR) to determine if a foreign trade practice meets section 301 criteria for action.<sup>38</sup> It also transfers the authority to the USTR to determine what action, if any, to take and to implement the action.<sup>39</sup>

Thus, USTR Carla Hills labelled Japan an "unfair" trading partner through its inclusion as a priority country on the "super 301" list. If Japan does not eliminate import barriers within 18 months on supercomputer, communications satellites and forest products, the U.S. will be forced to take retaliatory, including sanctions up to 100% tariffs, measures against Japan. The transfer of power was partly the result of trade policy critics who complained that the President "had not used his section 301 authority sufficiently and that our trade partners had been able to block U.S. exports with impunity".<sup>40</sup> The transfer also allows

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<sup>38</sup> William H. Cooper et al. CRS Report for Congress: The Omnibus Trade and Competitiveness Act of 1988, 88-390E (Washington, D.C.: Congressional Research Service, 1 September 1988): 7.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid., 6.

the USTR to act with less influence from non-trade Presidential advisors. There is a feeling in Congress, then, that the U.S. is finally "getting tough" with the Japanese by setting demands and time limits for settlement of disputes. Others criticize the action claiming it could lead to further protectionist measures.

The Japanese reaction to the decision was extremely critical. Former Prime Minister Sosuke Uno stated the trade imbalance in Japan's favor is partly due to the huge U.S. budget deficit. Based on these assumptions, he argues that;

...the implementation of the super 301 provision is an attempt to divert attention from the major cause of the trade imbalance and to eschew the responsibilities of the U.S. in macro economic policies.<sup>41</sup>

Uno's Trade Minister, Hiroshi Mitsuzuka, summed up Japan's view saying that the U.S.'s unilateral decision is "extremely regrettable" and could adversely affect multilateral talks in the Uruguay round of GATT.<sup>42</sup> He continued;

...Japan will voluntarily rectify its trade system if necessary as a nation who benefited most from the multilateral free trade system in the world...If we recognize the need to discuss particular trade issues, we will be ready to talk at the GATT but not in the pretext of unilateral trade sanctions of the U.S. based on that country's law...my understanding is that the U.S. is only trying to put its trade law into practice.<sup>43</sup>

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<sup>41</sup> FBIS, EAS-89-101, 26 May 1989 Kyodo, 26 May 1989, 1.

<sup>42</sup> Ibid.

<sup>43</sup> Ibid., 2.

In addition, businessmen in the computer, satellite and lumber industries stated that they do not unfairly protect their industries. They cited import growth in these areas as evidence of increasing trade liberalization.<sup>44</sup> Although some U.S. Congressmen admit that Japan has been cooperating by honoring trade agreements, they complain that Japan is not complying fast enough. Thus, one motivation for citing Japan as an "unfair" trading partner was to force Japan to quicken its pace toward liberalization.

#### Possibilities of and Limits to Cooperation

Currently, Japan refuses to conduct bilateral negotiations under the threat of retaliation and says that the U.S. action could hurt multilateral talks concerning free-trade.<sup>45</sup> In the short term, then Congress' approach may limit mutual adjustment. The Japanese preferred the previous bilateral sectoral approach to negotiations. The U.S., however, is trying to gain leverage by linking "as many complex disputes as possible at the same time".<sup>46</sup> This tactical approach is likely to succeed only if

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<sup>44</sup> Ibid., 4.

<sup>45</sup> Stuart Auerbach, "Japan Cited by Bush as Unfair Trader," The Washington Post 26 May 1989, A14.

<sup>46</sup> Richard A. Gephart, "Great Necessities Call Out Great Virtues," Vital Speeches of The Day vol. 1V, no. 15 (15 May 1989): 450.

Japan perceives greater benefits by complying and greater costs, that is less market access, by not agreeing to this approach.

Statistics show that the trade surplus is worsening rather than improving.<sup>47</sup> Although Japan and the U.S. have made progress in trade disputes concerning telecommunications and in agricultural products, the Congress and some businesses continue to criticize Japan's structural impediments in trade. Japan faults the U.S. for its current trade deficit, citing its unwillingness to improve the budget deficit. According to Larry Nixsche's CRS report:

...Economic relations between the United States and Japan will continue to be a key challenge and probably the key challenge to the relationship in the 1990s. Present tensions over trade imbalances, market access, and investment flows are certain to persist. They undoubtedly will affect the political and security aspects of the relationship. The future of the relationship will depend on the ability of the U.S. and Japanese governments to contain economic frictions and, especially, to limit the "spillover" effects.<sup>48</sup>

Most experts agree that Japanese economic power, based on new methods of production and advanced technology, will expand into the 21st century at a rate equal to or faster than that of the U.S.<sup>49</sup>

In addition to an increased trade deficit, trade disputes

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<sup>47</sup> See Direction of Trade Statistics for trends.

<sup>48</sup> Larry Nixsch, "Japan-U.S. relations in the 1990s," 4.

<sup>49</sup> The Washington Times, 3 January 1989, 4.

are likely to continue.<sup>50</sup> By following the Structural Impediments Initiative and a tactical issue-linkage approach to negotiations, the U.S. will continue to conceive burden-sharing in terms of trade. That is, by negotiating a reduction of these barriers, the U.S. hopes to entice Japan to play according to the rules of a "level playing field" and help the trade imbalance by importing more U.S. goods. However, others argue that passage of the super 301 may promote protectionist trade practices and lead the international system away from liberalism.<sup>51</sup>

The trade dispute also has implications for the U.S. as a financial leader. According to Robert Gilpin, the current trade discord is a result of the Reagan Administration's defense buildup and fiscal policy.<sup>52</sup> In order to finance the huge increase, the Federal Reserve increased interest rates attracting foreign, that is Japanese, purchasing of U.S. treasury bonds. Reagan's policy of low taxes coupled with a low U.S. savings rate placed the role of financing the U.S. military buildup on Japan.<sup>53</sup>

In the long-run, however, Japan's willingness to continue financial support of U.S. interests may decline, causing the economic power and influence of the U.S. to fall even more.

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<sup>50</sup> Ibid.

<sup>51</sup> Auerbach, "Japan Cited by Bush as Unfair Trader," A14.

<sup>52</sup> Gilpin, The Political Economy of International Relations, 330-332.

<sup>53</sup> Ibid.



Thus, the key measurements of power are shifting from military to trade and financial capabilities. The U.S. ability to act as a lender of last resort is in jeopardy. Whether or not Japan can assume responsibility is questionable. However, one area where Japan is creating a larger role for itself in terms of financial support is foreign aid.

## FOREIGN AID

### Introduction

The majority of Japanese policy-makers believe "because we cannot dramatically increase our defense spending, we should use our aid policy as a diplomatic card to head off possible pressures from the Western allies".<sup>54</sup> Japan is now the world's largest ODA donor, next to the U.S., dispersing up to \$10 billion annually to less developed countries (LDCs). This fact has been overlooked by many because of criticism focused on trade and defense imbalances. In the past, foreign aid was one area where Japan and the U.S. have cooperated in "aid policy coordination".<sup>55</sup> Thus, it provides an area where Japan can answer current burden-sharing demands. Because Japan is still dependent on LDCs for natural resources such as energy and food and also as a market for Japanese goods, it is vulnerably dependent upon these countries. In addition, its relationship with the West has forced Japan to be concerned with states of geopolitical importance.<sup>56</sup>

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<sup>54</sup> Opposition parties are against such a policy and would establish a new government agency and a law regulating ODA spending. See "LDP, Opposition Disagree on Use of Aid," The Japan Economic Journal, trans. Foreign Broadcast Information Service, 25 May 1989.

<sup>55</sup> William L. Brooks and Robert M. Orr, Jr., "Japan's Foreign Economic Assistance," Asian Survey, vol. XXV, no. 3, (March 1985): 322.

<sup>56</sup> *Ibid.*, 322.

### Definition: Official Development Assistance

Official development assistance is given both bilaterally through Japanese public and private institutions such as the Export-Import Bank of Japan, the Overseas Economic Cooperation Fund (OECF), and the Japan International Cooperation Agency (JICA) and multilaterally through the World Bank, International Development Agency and the Asian Development Bank. Each type contains grant and loan elements. Bilateral grant aids include economic development and other assistance, food aid and technical cooperation. Multilateral grants go to the UN, UN agencies and to international development agencies. Japan's loans are given through the OECF and Ex-Im Bank. Multilateral loans are given through the World Bank and the International Development Agency (IDA).

### Background

Initially, Japan's foreign aid programs were commercially oriented, with no underlying philosophy or policy objectives.<sup>57</sup> From 1950 to 1965 Japan conducted reparations negotiations with Southeast Asian nations, such as the Philippines and Indonesia, which were occupied by Japan during WWII. Japan benefited commercially by tying aid to "procurement" from Japan which

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<sup>57</sup> Ibid., 323.

established financial institutions and opened markets for Japanese goods in Southeast Asia. From the mid 1950s-1970s, aid was excessively tied and used to promote exports. After joining the exclusive OECD as the first non-Western state, Japan was increasingly subjected to pressures from other states within the organization and from the Third World to untie its aid.<sup>58</sup>

In 1972 it began to untie its multilateral aid and in 1975, focused on untying bilateral aid. In the 1970s, mainly because of the Arab oil embargo, Japan conducted "resource diplomacy", directing its aid to resource-rich countries for large-scale resource development or industrial projects. Also, because of the Iranian Revolution, the invasion of Afghanistan and Kampuchea, and the slowing down of the world economy, Japan started linking its aid to security interests.<sup>59</sup> Thus, under the concept of "comprehensive security", Japan sought to integrate diplomatic, aid and defense efforts into a foreign policy framework designed to meet its own as well as Western security interests.<sup>60</sup> Because of military limitations, policy-makers decided to use economic assistance as a major foreign policy tool. They thought that providing enough foreign aid to countries of strategic, geopolitical interest would promote stability and prevent external intervention.<sup>61</sup>

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<sup>58</sup> Ibid., 325.

<sup>59</sup> Ibid., 326.

<sup>60</sup> Ibid., 327.

<sup>61</sup> Ibid., 326.

By 1980, Japan was providing \$3 billion annually in ODA, double that of 1978, and was planning another doubling of ODA. Although Japan gives most of its ODA to the ASEAN states under the concept of comprehensive security, its program increasingly includes assistance tied less excessively to large-scale, capital-intensive projects and more to the economic development of LDCs in Latin America and Subsahara Africa. The main portion of its aid has been and will continue to be disbursed throughout Asia.<sup>62</sup>

#### Japan's ODA Statistics

Japan gives economic assistance to 134 developing countries. Currently it is the second largest donor among Organization for Economic Cooperation and Development members after the U.S. From 1965 to 1988, Japan's ODA increased from about \$244 million to \$10 billion. From 1982 to 1987, 1988 Japanese ODA increased from \$3,023 billion to \$8.8 and \$10 billion respectively.<sup>63</sup>

Although quantitative increases in ODA show a trend toward Japan assuming a leadership role in the foreign aid area, other indicators remain below the Development Assistance Committee (DAC) average. Japan's ODA/GNP ratio was .29% in 1987 which was

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<sup>62</sup> See Japan's Economic Planning Agency's 1988-92 Five Year Economic Plan.

<sup>63</sup> Much of this increase is due to the rise in value of the yen.

below the DAC average of .36%.<sup>64</sup> Finally, the DAC average is well below the United Nations-recommended level of .7%.<sup>65</sup>

## Arguments

### a. Aid Philosophy

An argument between the U.S. and Japan relating to ODA concerns Japan's aid philosophy. The U.S. says that it does not have a real philosophy except to promote exports. Japan, however, explains it does have an overall approach which includes three main principles: self-reliance among recipient countries ("request only"), an apolitical stance on the part of the donor, and combining of public and private efforts to promote development.<sup>66</sup> According to Barbara Stallings, "these factors lead to a reluctance to impose bilateral conditionality on loans and to a lack of enthusiasm for economic lending on strategic grounds, both of which have been criticized by the U.S. government".<sup>67</sup>

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<sup>64</sup> Japan's ODA/GNP ratios from 1982 to 1986 were .28%, .33%, .35%, .29% and .29% respectively.

<sup>65</sup> Eilleen M. Doherty, "Japan's foreign aid policy: 1987 Update," Japan Economic Institute 41A, 30 October 1987.

<sup>66</sup> Barbara Stallings, "An Increased Japanese Role in Third World Development," Policy Focus, no. 6, (1988): 5.

<sup>67</sup> Ibid.

Japan's "request only" policy appears to show non-interference in the domestic policies of other states. However, it is also used as a selective instrument which promotes Japanese technical assistance and trade. Under this policy the four ministries which guide Japanese ODA policy, The Ministry of Foreign Affairs (MFA), The Ministry of International Trade and Investment (MITI), The Economic Planning Agency (EPA), and The Ministry of Finance (MOF) set annual aid targets to LDCs and handle recipient project requests, developed with the Japanese private sector. Each request is handled on a case-by-case basis under the Yon Shocho system.<sup>68</sup> The new five-year economic plan states that Japan is moving away from "request-only" to a more aggressive approach.<sup>69</sup>

Recent events show that Japan is reconsidering its past apolitical stance by withholding its 97 billion yen loan to China in light of the current political unrest.<sup>70</sup> In addition, Japan's major participation in the Multilateral Assistance Initiative for the Philippines, which includes \$6-10 billion to be disbursed over a five-year period beginning in 1990, indicates that strategic interests with the West are involved.<sup>71</sup> Japan's aid

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<sup>68</sup> David Arase, paper presented at the annual International Studies Association conference, 1989 London.

<sup>69</sup> See Five-year Economic Plan.

<sup>70</sup> See Foreign Broadcast Information Service daily report, the first time Japan has severely criticized China for its actions.

<sup>71</sup> "Donors hope aid will stabilize Philippines," The Japan Economic Journal, 10 June 1989.

philosophy is changing to meet its own interests, including increased trade opportunities, and its security interests with the West.

#### **b. Allocation**

The U.S. and the international lending organizations criticize Japan's uneven disbursements of ODA. Japan allocates most of its ODA to Asian countries for historical, geographic, economic and political reasons.<sup>72</sup> By the end of the 1970s, Japan's 7-1-1-1 formula for aid allocation was institutionalized.<sup>73</sup> This meant that 70% of its ODA went to Asia while 10% each went to Africa, the Middle East and Latin America.

Recent actions, however, indicate that Japan is concerned with non-Asian areas. In 1988 It set up a "special fund" of \$2 billion within the World Bank for improved development of Sub-Sahara Africa. It also increased its ODA to strategic countries like Oman, Jordan, Egypt and Turkey and technical assistance to the Middle East to help facilitate the passage of ships in the Persian Gulf. Thus, Japan uses ODA to maintain security in non-Asian as well as Asian areas. Finally, Japan's involvement in Latin America is not rapidly expanding in terms of ODA disbursement, yet the debt problem spurred its trade surplus recycling initiative. This initiative, announced in 1987, is

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<sup>72</sup> Orr, 328.

<sup>73</sup> Dougherty, "Japan's foreign aid policy: 1987 Update," 7.



intended to divert \$20 billion to debtor nations with \$4 billion targeted to Latin America.<sup>74</sup> Despite these increases, the U.S. says that it is still not enough.

Proposals by Japanese suggest that rather than Japan trying to eliminate its trade surplus, it should send more excess funds to developing countries. Specifically, it should recycle \$25 billion annually to the LDCs over a five-year period and should triple the 1985 ODA figure by 1990. A proposal by the U.S. Senate included an amendment to the Defense Department authorization bill calling on Japan to increase its ODA/GNP ratio to 3% by 1992.<sup>75</sup> The current percentage is .29, making this request highly unfeasible considering the amount of ODA Japan has already pledged. Despite increased ODA to non-Asian areas, Japan will most likely continue to focus its aid on Asia because of trade opportunities, cultural ties and a greater knowledge of the area.

### c. Aid Quality

Another source of tension between the U.S. and Japan is the amount of grants and loans contained in Japan's ODA. Ideally, ODA should be "untied" to the purchase of goods and in the form of grants with a greater emphasis on social infrastructure. In

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<sup>74</sup> Michelle Rockler, "Japan Funneling \$30 billion to Third World," Times of the Americas 21 September 1988, 13.

<sup>75</sup> Dougherty, 7.

the past, Japan has focused on tying its ODA loans to the purchase of expensive equipment for capital-intensive projects, actions which contradict DAC requirements.<sup>76</sup> Although Japan has directly untied its ODA, many argue that it remains indirectly tied to the engineering portion of aid. That is, because Japan requires feasibility studies from the recipient before a project is accepted, this requirement forces the recipient to rely on Japanese consultants.<sup>77</sup> These consultants can then influence the project to be developed and the type of equipment to be used, usually Japanese.

On the surface, the past few years, however, show a trend that Japan is increasing its role in Third World development according to the principles of international development institutions. Japan's grant share of ODA has increased, terms of loans have been softened, less money has gone to large-scale projects, tying has declined well below the DAC average, and more funds have been targeted for the least developed countries.<sup>78</sup>

On the other hand, a closer look indicates that Japan intends to continue to focus its ODA in Asia, encouraging more imports, foreign direct investment and ODA. Japan's 1988 five year economic plan links ODA, investment and trade under the

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<sup>76</sup> Stallings, 5. DAC refers to the Development Assistance Committee.

<sup>77</sup> Usually, LDCs in Asia do not have the expertise that Japan does, but in other areas of the world this is not true.e.g. in Subsaraha Africa and Latin America.

<sup>78</sup> Trends can be found by analyzing Development Cooperation annual reports.

concept of "comprehensive economic cooperation".<sup>79</sup> Instead of following the "request-only" policy, the plan indicates that Japan will take a greater initiative by making country-by-country aid plans, helping LDCs draw up their own development plans and will invite Korea and Taiwan to implement aid programs.<sup>80</sup>

#### d. Bilateral versus Multilateral Aid

In its bilateral relationship with Japan, the U.S. has urged Japan to give more ODA for strategic reasons. On the other hand, the U.S. has asked Japan to contribute more to the World Bank and IMF according to their principles. Thus, Japan is being pressured to fulfill two roles, that of an "ally" to the West and as a world leader promoting development and stability.

In both instances, as stated in chapter two, Japan is concerned with its reputation and credibility within the international system. Japan has given more for strategic reasons in order to maintain a credible partnership with the West. In addition, it has increased its multilateral ODA to promote the image of a "Japan which contributes to the world" through peaceful means compared to its past militaristic reputation.

In theory, strategic considerations should not be a factor in multilateral ODA allocations. In practice, however, two factors serve to conceal this distinction. First, countries

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<sup>79</sup> Takeshita, 3.

<sup>80</sup> Arase, 11.

labelled both as LDCs and which are strategically important to U.S.-Japanese security interests can receive multilateral ODA under the guise of "development". Second, the U.S.-Japanese bilateral relationship is also reflected in multilateral institutions such as the World Bank and the IMF. Although these institutions are supposed to be apolitical, it is almost impossible to ignore the self-interests of the actors who influence policy.

A central argument concerning bilateral versus multilateral aid maintains that, according to the U.S., Japanese bilateral ODA should have a balanced combination of both private and governmental contributions. If the governmental agencies give more ODA, it is less likely to be tied to commercial interests compared to grants and loans given by the private sector. Currently, however, most of Japan's ODA is given by the private sector because that is where the surplus is generated. The government budget is actually running a deficit. Despite this predicament, Japan is continuing to search for cooperation on debt and development between the government and private sector.<sup>81</sup>

In line with this argument, the U.S. continues to demand that Japan give more to multilateral development institutions. Despite the fact that Japan is now the number one donor, quantitatively, of ODA compared to DAC members the U.S. cites

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<sup>81</sup> Saburo Okita, "Japanese Aid Policy and The Recycling of the Surplus for Development," Draft (March 1988): 13.

the fact that Japan spends only .29% of its GNP on ODA compared to the DAC average of .36%.<sup>82</sup>

Another issue involves increased quotas from Japan to the World Bank. Specifically, Japan has increased its quota from 17,539 shares in 1980 to 52,626 in 1988. At the same time, its voting power, a reflection of its quota in the Bank, has increased from 5.30% in 1980 to 6.65% in 1988.<sup>83</sup> The voting power of the U.S., on the other hand, has declined from 21.11% in 1980 to 18.72% in 1988. Because of its trade and budget deficits, the U.S. is contributing less and less.

Despite this trend, the U.S. does not want to lose its hegemonic position in the World Bank. Thus, in December of 1986, the U.S. negotiated an agreement with Japan which would allow the U.S. to retain veto power over major policy changes, a privilege it has enjoyed since the founding of the organization.<sup>84</sup> In return, Japan could increase its voting power.<sup>85</sup> The agreement allowed the veto threshold to be lowered from 20% to 15% where a country with over a 15% voting power, that is the U.S., may

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<sup>82</sup> List DAC members

<sup>83</sup> Japan is now ahead of France (4.93%), Germany (5.14%) and the U.K. (4.93%) in terms of voting power.

<sup>84</sup> Creating "special funds" like Japan's contributions to Sub-Sahara Africa through the World Bank will likely continue. Since Japan is apprehensive about taking responsibility within the WB, it can still answer demands that it contribute more without dramatically increasing its voting power by using such instruments as "special funds" which do not affect voting power.

<sup>85</sup> "U.S. to reduce voting power in World Bank" Wall Street Journal, (16 December 1986).

exercise the veto. Despite this agreement, Japan argues that its voting power within both the World Bank and the IMF is not an accurate reflection of the amount of money it contributes to these organizations.

The U.S. cites Japanese inexperience in decision-making and lack of technical knowledge as reasons why Japanese influence should remain low. However, Japan's willingness to act as the world's largest creditor within international organizations without commensurate political influence will not last indefinitely. These shifting power relations within the World Bank and IMF are a reflection of wider shifting capabilities within the international system.<sup>86</sup> For the time being, however, the U.S. is still able to significantly influence agreements within the World Bank and IMF.

### Summary

Four trends in aid philosophy, allocation, quality and bilateral versus multilateral aid can be drawn from the previous analysis. First, most believe that Japan's aid philosophy is leading away from the "request only" approach to one which requires initiative and more government-private sector cooperation by Japan. The U.S. wants Japan to increase its ODA through government funds because it is less likely to be tied to

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<sup>86</sup> See Krasner's International Regimes, 15 for explanation of power as a variable which causes regimes to change.

trade and finance. However, since the trade surplus is generated within the private sector, it is inevitable that this money will be used for increased ODA. Second, on the whole, Japan's aid will continue to focus on Asia and to those of strategic importance while Japan continues to give aid to the World Bank to improve its reputation and credibility. While the U.S. supports Japanese ODA to the WB and IDA, it does not want to cede the accompanying "power-sharing" privileges to Japan. In addition, the U.S. fears that Japanese concentration of ODA in Asia will create a powerful Asian co-prosperity bloc in terms of trade and finance. Third, Japan's aid, although directly untied, is indirectly tied. LDCs , especially in Asia, are dependent on Japan for technical assistance to produce the required feasibility study. Therefore, along with allocating Japanese ODA more evenly, the U.S. supports both directly and indirectly untied aid in order to prevent this bloc in which Japan would be the major trading and financial power.

Fourth, Regarding the bilateral versus multilateral aid choice, Japan will likely give more through both channels because it has the money. However, it will continue to give more bilateral than multilateral because of business opportunities which will benefit trade.

Based on mutual interests, Japan, as a response to U.S. burden-sharing demands, has answered requests to increase its strategic aid. Using strategic aid as a means of fulfilling military contributions to burdensharing provides an example where

issue linkage is used to achieve cooperation. However, the issue of power-sharing, especially in international organizations, is emerging as another concern which the U.S. must inevitably confront.

### CONCLUSION

The previous analysis of military, trade and finance, and foreign aid attempts to outline the dilemmas and approaches to their resolution produced by the changing U.S.-Japanese interdependent relationship. Variables such as power, interests and culture are transforming the arrangements created after WWII. Although in the past these arrangements have guided state behavior, maintaining a cooperative relationship, one could argue that the current discord is the result of uncertainty produced by a relatively declining hegemon, the U.S., and a slowly emerging power, Japan, which has yet to assume economic leadership.



## CHAPTER 5

### IMPLICATIONS FOR U.S.-JAPANESE COOPERATION: JAPAN'S FUTURE ROLE RECONSIDERED

After introducing the concepts of interdependence and cooperation, the previous analysis focused on the changing U.S.-Japanese relationship. Chapter two answered questions concerning Japan's future world role in relation to its past and to other states. It shows the constraining effects of uncertainty, misperceptions and ill-defined interests on forming world roles. Chapter three examined the concept of burden-sharing developed by the U.S. as a policy to deal with its inability to maintain overseas commitments. Development of policy on both sides to address the effects of shifting capabilities and to define future roles are often misguided because of problems of uncertainty, perceptions and misperceptions.

Chapter four examined in detail the U.S.-Japanese interdependent relationship in areas of military, trade and finance, and foreign aid. These areas are interlinked, sometimes forming channels for cooperation, or mutual adjustment, and other times conflict. For instance, in burden-sharing, linking demands for increased Japanese military spending to the trade dispute has created more discord than cooperation. On the other hand, linking Japan's wealth to demands that it increase its foreign aid contributions as a form of burden-sharing has been more successful in terms of cooperation.

## UNCERTAINTY AND COOPERATION?

From the present U.S.-Japan interdependent relationship, it is apparent that uncertainty promotes conflict while leaving open the possibilities for cooperation. However, the U.S.'s past relationship with Japan was much more predictable, enabling policies to adjust to mutual expectations. Under what circumstances, then, does uncertainty promote cooperation? Some argue that because the U.S., as the dominant world power, was able to influence Japan, a powerless state, into accepting formal treaties, this guaranteed certain state behavior in line with U.S. interests. Thus, the uncertainty created after WWII was modified by the hegemonic leadership of the U.S.. This leadership promoted a form of cooperation, not based on equality, but on the distribution of power.

Although the U.S. was the dominant military and economic power, both sides benefited from the relationship. The U.S. benefited from the security of Japan as a political and ideological ally. Japan profited from the U.S. security system and U.S. leadership in foreign policy which enabled them to concentrate on economic development.

Now, due to shifting capabilities, this order seems to be threatened. As Japan's wealth increases and U.S. influence waivers, perceived interests are changing. Many Japanese claim that the U.S. is only concerned with maintaining its hegemonic role in the world. Others believe that Japanese rhetoric, which

attempts to portray it as a nation pursuing peace through economic diplomacy, only masks their true intentions of becoming the world's dominant economic power.

The current uncertainty about interests and intentions and the resulting instability can only be rectified, according to some, through continued support of the U.S. as the world leader in trade, finance and defense.<sup>1</sup> Japan is constrained because of its diplomatic inexperience and little knowledge of other cultures. In addition, Japan does not have the ability to act as a lender of last resort, to maintain open markets and to make and enforce the rules of the international economic system as the U.S. did.

On the other hand, stability of the international system may not depend on the leadership of the U.S. or Japan as a hegemon. Although the leadership of a single state, based on the distribution of power, is important in maintaining stability, cooperation can occur by adhering, rationally, to international regimes.<sup>2</sup> Today the burden of assuming hegemonic leadership at the previous U.S. level is too great for any one state raising the importance of international regimes in facilitating mutual adjustments.

#### FACTORS INFLUENCING JAPAN'S FUTURE WORLD ROLE

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<sup>1</sup> Samuel P. Huntington has expressed this view repeatedly. See his article "The U.S.-Decline or Renewal?," Foreign Affairs (1989).

<sup>2</sup> Keohane, After Hegemony: Cooperation and Discord in the World Political Economy, 63-64.

The U.S.-Japanese relationship directly relates to the stability of the world system because of the enormous economic and military power of the two combined. Therefore, although the previous chapters emphasized their bilateral relationship, I will here draw some conclusions concerning Japan's future world role. To restate, the four future scenarios developed by contemporary theorists are; Pax Americana II, Joint Hegemony, Pax Consortium and Pax Nipponica.

In military, economic and foreign aid terms both external and internal factors will shape Japan's future world role. Externally, perceptions of Japan's dramatic increase in wealth, the trend towards regionalism and perceptions of military threats will inevitably shape its future character. Internally, governmental instability, changing domestic views of its future role, and cultural values will affect domestic and foreign policy designed to achieve a new role.

### External Influences

As stated earlier, a state's own perceptions and those of others are important in defining interests and policies. Regional and global perceptions of Japan's growing economic power constrains its ability to become the "balancer among the continental powers". Past fears among Korea, China and other Asian states of Japan's attempt to create a Greater Co-prosperity

Sphere in Asia still prevail. In addition, the U.S. still views Japan's rise in power with caution. The possibility of its economic power translating into military power could conceivably allow Japan to replace the U.S. as the world's hegemon. The U.S., therefore, is demanding that Japan, as its traditional ally, share the burden of its overseas commitments. This policy is designed to maintain the U.S. as world leader both economically and military while at the same time limiting Japan's threat to U.S. economic security. The trend towards regionalism has also raised concerns about the effects on the world trading system. Will the economic integration of the EEC in 1992 and the development of the U.S.-Canada free-trade pact lead the international system away from liberalism towards protectionism? Because Japan is uncertain as to whether or not these trading blocs will erect tariffs and quotas on outside imports, it is seeking to protect its own economic security by increasing trade and financial flows within the Asia Pacific region.

Another reason why it is turning to its own region as a source of economic security includes the consequences of U.S. attempts to balance its own budget. According to the Japanese, these measures will decrease U.S. ability to import goods, which would negatively affect Japan since it is the U.S.'s number two trading partner next to Canada. In addition, because Japanese influence depends solely on its economic power, fear of this influence decreasing has forced Japan to focus its ODA on Asia.

Allocating more loans and grants denominated in Yen to Asian states will force them to purchase goods in Yen, further integrating this currency and trade within the region. As Japan shifts production offshore to cut rising production costs this also integrates trade and financial relations.

However, the perception factor also plays a role in limiting Japan's economic dominance in the Asian region. The "Four Dragons", Hongkong, Singapore, South Korea and Taiwan, and the "new NICs", Indonesia, Malaysia, the Philippines and Thailand, do not support a "Yen bloc".<sup>3</sup> They want increased trade with Japan to complement the U.S. market.<sup>4</sup> Based on historical fears, this approach, in their view, would limit the possibility of Japan forcefully dominating the region through its economic and potential military power. The Japanese are aware of these sentiments and have no desire to portray themselves as an aggressive nation. They are trying to balance their own economic interests with interests of other states. They have slowly answered U.S. demands that Japan liberalize trade barriers, while at the same time covering its bases by increasing trade ties in its own region.

Continued perceptions of a Soviet military threat are also shaping Japan's future world role. They have forced Japan to answer U.S. demands to take a greater responsibility for its own

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<sup>3</sup> "The Yen Block: A New Balance in Asia?," The Economist (15 July 1989): 6.

<sup>4</sup> Ibid.

defense as the U.S. can no longer shoulder the burden alone. With modest increases in the defense budget, Japan is appeasing U.S. demands. At the same time, however, it must be careful not to arouse fears among its Asian neighbors of a resurgent militaristic Japan. Thus, Japan is balancing foreign interests based on perceptions of Japanese intentions with its own economic interests.

### Internal influences

Factors such as domestic instability, changing views of its future role and cultural values influence policy-making. Within the last year, Japan has elected four different governments because of scandal. From Nakasone, Takeshita, Uno and now to Kaifu, the government has undergone upheaval which raises questions concerning resolution of disputes with the U.S..

As the Liberal Democratic Party (LDP) cedes power to the Japan Socialist Party (JSP) after a thirty four year reign, the central question is how this leadership change will affect current defense, trade and foreign aid policies. As the JSP currently has the majority in the upper house of the Japanese parliament, it has tremendous power to block legislation formed in the lower house where the LDP holds the majority. The JSP has stated that it will try to prevent the strategic allocation of ODA in addition to limiting a military buildup. It maintains that Japan should be more independent from the U.S. in the

formulation of its foreign policy. However, the ability of the JSP to drastically change the current military, economic and foreign aid policies is limited. Businesses play a great role in promoting governmental policy especially in trade. As economic and military plans, linked to commercial interests, have already been developed and approved, they would be difficult to suspend through legislation. Thus, in the near future, a continuation of past policies is likely.

In addition to domestic instability, domestic opinion will help shape Japan's future character. As stated in chapter 2, the ordinary Japanese citizen does not want Japan to become a military power. They want to contribute to the world through diplomacy and foreign aid. The extent to which governmental policy accommodates these sentiments varies. As shown earlier, Japan's military budget has increased to meet its perceived needs and, to a certain extent, those of the U.S.. The Japanese people support this increase because it is moderate. They would not support a rapid increase in military expenditure and neither would most foreign states. Again, domestic perceptions of Japan being led by a militaristic and expansionist government is another factor preventing it from becoming a major military power.

## CONCLUSIONS



The above external factors of foreign perceptions, growing regionalism and military threats together with these internal factors of domestic instability, domestic opinion and cultural values are forging Japan's future world role. Both Pax Nipponica and Pax Consortium seem less likely because of their extremism. Pax Nipponica, portraying Japan as the world hegemon based on its economic strength and leaving open the possibility of Japan achieving military power, is less likely. Other states may prevent this by forming alliances against Japan. In addition, Japan would continue to depend on the U.S. nuclear umbrella. The likelihood of Japan acquiring nuclear weapons is limited by domestic and foreign opinion. The ability of Japan to act as a lender of last resort and to maintain open markets especially to less developed countries is limited because of structural impediments. Finally, the potential economic power generated within EEC integration in 1992 and U.S.-Canada free-trade area would limit dependence of these states on Japan for trade and finance. Japan's dominance as world economic power would thus be constrained.

Pax Consortium, which portrays the world without a hegemon and where international regimes facilitate the settlement of disputes, is also unlikely because it tends to downplay the importance of state power on individual decision-making. The trend towards regionalism is raising fears concerning the effectiveness of the GATT free trade regime. As U.S. influence declines relative to other states, will members of GATT continue

to follow the principles and norms of that institution without the leadership of its founder?

Concerning security regimes, it is true that major powers such as the U.S. and the Soviet Union are conducting more arms negotiations as they find they can no longer maintain current levels of defense spending. Also, in economic security, coordination of monetary and financial policies among the Group of Seven (G-7) represents a form of "consortium" as they are becoming increasingly sensitive to others' choices. Despite this cooperation, the main feature of Pax Consortium, that is the settlement of disputes by non-military means, is not likely to occur in the future as long as the threat of nuclear weapons remains.<sup>5</sup>

This leaves Joint Hegemony and Pax Americana as the two most likely future scenarios. Joint Hegemony seems less likely in the near future. This partnership portrays Japan as the world and regional economic power. Although trends show that Japan may inevitably become the economic power in Asia, replacing the U.S.; as stated above, regional sentiments against this shift will slow its development. In the short term, both domestic and foreign opinion will prevent Japan from translating its economic power into military power. The U.S. also does not want to reduce its economic influence in the area to the point where Japan controls all trade and financial flows.

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<sup>5</sup> Inoguchi, 26.

Militarily, recent collaboration between the U.S. and Japan on development of high-technology, especially for defense, may push the two powers into joint hegemony. On the other hand, the current trade friction between the two countries may not enable their economies to fully integrate, forcing them to seek alternative markets. Whether or not current perceptions of Japan based on historical fears change, this will influence the possibility of joint hegemony with the U.S..

Finally, Pax Americana II seems most likely in the short term. Japan states that it wants to remain number two to the U.S. while it continues to play its primary economic role. As it seeks to fulfill its role, Japan is diversifying its markets by shifting offshore into the U.S. and other Asian and European countries where the local economies can also benefit. Although they are eager to trade with Japan, Asian nations want the U.S. to remain as the region's economic leader to counterbalance Japan.

In addition, by answering U.S. burden-sharing demands that it spend more on defense and give more ODA, this takes some pressure off the U.S., enabling it to maintain its hegemonic role at a lower level. Although Japan is spending more on defense, this increase is not enough to liberate it from the U.S. security system in Asia.

These four scenarios all represent a form of cooperation and type of interdependence between the U.S. and Japan. They are not based on equality, rather, they involve various types of

asymmetric relationships. Whether or not the two countries can manage the current trade frictions and its spill-over effects into the defense burden-sharing dispute is uncertain. Over time, Japan and the U.S. may learn from past mistakes and adjust policies to mutual expectations. The main problem, however, is identifying what these expectations include. With shifting capabilities, interests are changing making it difficult to clearly articulate goals.

In the long run, certain questions will arise concerning the U.S.'s relationship with Japan. On a broader level, will stability of the international system require hegemonic leadership or will international regimes play an increasingly important role? Relating this question to the U.S.-Japanese case, what roles will each country assume in order to promote stability? Domestic politics plus the transformation of the international system will significantly affect definitions of interests and formulation of policy. As trade seems to becoming the main tool of foreign policy, and as the U.S. Congress gains more control over decision-making in trade and foreign aid, what effect will this transformation have on the effectiveness of U.S. foreign policy? Will the problems of bureaucratic politics become more apparent within the U.S. and Japan, challenging realist assumptions that the state is a unitary actor? How will this change affect the U.S.-Japanese relationship?

Similarly, the disruptive domestic political scene in Japan raises questions concerning that country's future world role.

Specifically, as the JSP gains the majority in the Upper House of the Japanese parliament, how will this shift in power affect foreign policy-making in Japan? Will the JSP be able to effectively block defense, trade and foreign aid legislation submitted by the LDP which is more sympathetic to U.S. demands? How will these changes affect the possibilities for Pax Americana II and Joint Hegemony? These are questions which will undoubtedly arise as the relationship evolves. In the mean time, the basic structure of the relationship will remain the same while certain modifications will forge Japan's new role under Pax Americana II.

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