I

The Promise and Perils of Interdependence

While awaiting confirmation hearings for my assignment as ambassador to Japan in early 1989, my friend Tadashi Yamamoto—the organizer of countless U.S.-Japan exchange programs over the years—requested that I meet with a group of visitors from Japan. They asked me what I expected to be the most daunting challenges I would face in managing the day-to-day relations between our governments. I responded that months of preparation for the hearings had reinforced two central impressions about our relationship: first, the United States and Japan were dependent on one another as never before; second, people on both sides of the Pacific found this reality deeply disquieting. The trick, I suggested, was not to diminish this mutual dependence—which in any event appeared inescapable—but to make it more comfortable for both countries by assuring that its manifold benefits were equitably shared.

I traveled widely that spring to meet with leaders of U.S. constituencies with a stake in our relationship with Japan. Everywhere I went, I encountered ambivalence toward the Japanese. Almost like a mantra, Reagan administration spokespeople had reiterated the assertion of Mike Mansfield, my predecessor as ambassador to Japan, that U.S.-Japan links were our most important bilateral relationship—bar none. Yet significant elements within the Congress, the unions, the business community, the press, and academic circles believed that something in that relationship was amiss. It was reflected in a comment that circulated widely in those days: "The cold war is over, and the Japanese won!" U.S. attitudes toward Japan appeared increasingly schizophrenic. As respect for its industrial prowess had grown, so had fears of its relentless drive for market share in many economic sectors in which Americans had traditionally excelled. Lee Hamilton, longtime member of the House Foreign Affairs Committee, recalled for me an experience that typified these concerns: On a 1989 visit to Seymour, Indiana—a small town remarkable for, among other things, the fact that it still celebrated V-J (Victory over Japan) Day—the principal topic of conversation among his constituents was the recent construction of several Japanese plants in or near town. Some of the locals were enthusiastic about this development; others were agitated and distressed. The reason for the divergent reactions, it turned out, was fairly simple: those who had found employment at the plants praised the Japanese; those who had not denounced them. The impact of the growing interdependence between our countries was being felt as never before on the farms and in the factories, classrooms, and boardrooms of the United States. People held strong opinions about Japan, and they were often laced with contradictions.

The Contours of Interdependence

By the late 1980s the fates of the United States and Japan were closely intertwined. The interdependence of our economies, already vast, was growing rapidly. For each country, the other had become its largest overseas trading partner, principal source of new technology, and most valued trans-Pacific ally.

Bilateral trade approached $140 billion. Japan supplied Americans with a dazzling variety of high-quality, reasonably priced consumer products and increasingly sophisticated industrial equipment. Meanwhile U.S. farmers produced a large percentage of Japan's food; Boeing and McDonnell-Douglas furnished Japanese travelers with wide-bodied jets, and Japanese tourists were the biggest spenders at Hawaii's hotels and golf courses. U.S.-owned companies in Japan produced nearly $100 billion in goods and services. And Japanese multinationals—particularly its auto and consumer electronics companies—were swiftly building production facilities in the United States to hedge against the growing protectionist sentiment in Congress. In the process they contributed to the economic revival of the Rust Belt in the U.S. Middle West.

The rapid growth of Japanese investment in the United States provoked mixed feelings. The purchase of blue-chip properties such as Rockefeller Center and the Pebble Beach Golf Course provoked criticism and unease. Yet direct investment in production facilities offered employment to tens of thousands of U.S. workers, generated tax revenues for state and local governments, and brought technology transfers and new methods of organizing the manufacturing process. Japanese money helped to finance the U.S. fiscal deficit. And the destinies of our respective high-tech firms were becoming linked as never before through a proliferation of strategic alliances that enabled companies to pool knowledge and share the high costs and risks of developing new technology.

The growing interdependence of our countries was marked by more than increased trade and investment. Although the Soviet threat was receding, the U.S.-Japan alliance still offered both governments greater security at lower cost while providing reassurance to other Asian nations. And expanding cultural and educational exchanges enriched the lives of both peoples. By the late 1980s, Japan had become Hollywood's largest overseas market, and American popular culture was making even wider inroads in Japan. One could scarcely turn on a TV set in Tokyo without seeing Michael Jordan, Janet Jackson, or Arnold Schwarzenegger pitching one or another American product. American orchestras played Suntory Hall, Oscar Peterson and Mel Torme were headliners at Tokyo's choice clubs, and prominent country singers were featured at the annual Country Gold Festival in Kumamoto. In the USA, major sports events were regularly sponsored by Japanese companies like Toyota, Nissan, Honda, and Toshiba. Bill Blass, Donna Karan, and Oscar de la Renta were becoming household names among fashion-conscious Japanese, just as Hanae Mori's signature butterflies were recognized by stylish Americans. In San Diego you could eat sushi while watching the Padres play baseball; in Tokyo you could have Domino's pizza delivered to your home—with the price reduced if it didn't arrive within thirty minutes.

As bilateral trade and investment grew, so did travel and exchanges of all kinds. Throughout the 1980s the numbers of Japanese students and professionals temporarily residing in the United States increased dramatically. Many of these brought their families with them, with the result that many more Japanese children were educated for extended periods in this country. Relatively few Americans could be found in Japanese universities, but there was a perceptible increase in the numbers of young Americans working in Japanese banks, trading companies, security houses, and manufacturing firms.

As impressive as the extent of our mutual dependence was the complementarity of our respective national strengths. The USA extended a security guarantee to Japan; that country in turn gave the United States access to bases enabling us to project our power efficiently into the western Pacific and Indian Oceans. Japan accommodated our insatiable appetite for high-quality consumer goods; we met their needs for food, raw materials, and high-technology products. Japan's growing investments in this country helped offset our low level of national savings, while we offered Japanese investors what seemed at the time a safe haven for their assets, as well as access to financial service firms with a dazzling array of innovative products. Our oil companies supplied Japan with a substantial portion of its fossil fuel and petroleum products; Japanese firms showed ours how to utilize a variety of impressive energy-saving technologies. Japanese companies had become the principal suppliers of low-cost, high-quality semiconductor chips to the USA's computer industry; at the same time, Japanese computer firms became increasingly dependent on the microprocessors and software that only U.S. high-tech firms could provide.

The United States' excellence in basic research was matched by Japan's genius for applied engineering. Our great research universities inspired envy among Japanese educators, while specialists here examined Japan's schools for lessons on how to reform our primary and secondary educational systems. U.S. manufacturers sought to adapt Japanese lean production methods to their requirements; U.S. retail outlets—like 7-Eleven—challenged Japan's distribution system by offering lower prices and more convenient business hours. If Japanese visitors to the United States were impressed by our spontaneity, creativity, and love of freedom, Americans in Japan invariably admired the order, safety, purposefulness, civility, and decorum that were such visible features of Japanese life.

The growing interdependence of our societies was accompanied by impressive evidence that we were acquiring the habit of working effectively together. As I had learned from personal experience, this required an act of will by both sides, since the cultural and linguistic obstacles to cooperation were formidable. Government-to-government consultations were numerous, and they were elaborately choreographed. Only a true specialist could recite the plethora of channels. Discussions were often stylized and formalistic. Candor was not always at a premium; spontaneity was rare. Yet key officials on each side were regularly in touch. Each government had some access to the organs that formed public opinion in the other country. And problems tended to get managed, if not necessarily resolved.

The mutual dependence that ensnared our countries was, of course, part of a wider global process. Information-age technology—most notably telecommunications devices and computers—had shrunk distances and hastened the emergence of a global economy. Money, goods, services, and information moved around the world at breathtaking speed, with less and less reference to national borders. With multinational corporations in the lead, the production process was progressively internationalized, and the complementarity between trade and investment reinforced.

These developments brought change and competitive challenges that were unsettling to many. They also rearranged many familiar categories of thought. Even the terms *exports* and *imports* were less meaningful since many traded products incorporated parts manufactured in ten or more countries; nearly 40 percent of international trade involved intrafirm transfers by multinational companies; and statistical indices of the United States' trade performance consistently understated our exports of legal, financial, accounting, and other services since these were difficult to measure.

The growing trade deficits of the late 1980s deepened pessimism among Americans about the competitiveness of many U.S. firms, yet, ironically, information-age technologies played to American strengths in entrepreneurship and innovation. In Japan, on the other hand, although the same period brought unprecedented economic success, the forces impelling the globalization of the economy were to challenge both its society's capacity for creativity and the power of the bureaucracy that had played such a large role in designing and guiding the country's unique brand of catch-up capitalism. Moreover, as the East-West struggle faded, it was apparent that the familiar cold war rules for handling international economic and security issues were in need of revision. Since Japan and the United States together represented nearly 40 percent of the world's productive output, no two nations had a larger interest in the content of those rules or a greater capacity to redesign them. As Singapore's former prime minister Lee Kwan Yew frequently observed, when the USA and Japan collaborated effectively, the entire world shared in the benefits; when they did not, everyone experienced the baleful consequences. In short, Americans and Japanese were not the only people who had a stake in their ability to cooperate and to manage occasional differences.

The Frustrations of Interdependence

I was regularly reminded during the spring of 1989 that, despite its obvious benefits, many Americans were disquieted by the growing interdependence between their country and Japan. Increasingly familiar were complaints that the Japanese were protectionists, that they were taking a free ride on Western defenses, that they shirked their international responsibilities, and that they coveted the status of a major power without accepting the responsibilities that such a status implied. Japanese purchases of trophy properties struck a raw nerve. Congressional pique over huge and persistent bilateral U.S. trade deficits with Japan provoked the 1988 Trade Bill, designed largely to provide leverage for prying the Japanese market open wider. The terms of the FSX project involving bilateral arrangements to codevelop a new Japanese tactical fighter aircraft incensed many congressional critics, who feared it would facilitate Japan's eventual entry into the civilian aircraft market—one of the few advanced manufacturing industries the U.S. continued to dominate.

A spate of revisionist books and articles about Japan provided a more general analytic framework for specific concerns. Clyde Prestowitz, Karl van Wolferen, James Fallows, and Chalmers Johnson may not have been household names in 1989, but they had acquired a certain following in the nation's capital, changing the intellectual climate of U.S.-Japan relations at just the moment when the resolution of the cold war was altering the political atmosphere.

The revisionists differed in their analyses of the Japanese political and economic system and in their prescriptions for the USA's trade deficit, but they all maintained that Japan's brand of capitalism operated according to premises different from our own. They also regarded as hopelessly naive and unproductive the U.S. government's negotiating methods vis-à-vis Japan, alleging that U.S. economic interests were consistently sacrificed to strategic concerns. While some hoped the Japanese would become more like us and others advocated U.S. trade policies more like theirs, all believed that profound adjustments would be required to achieve a more balanced relationship. And they all disparaged many of the "Japan hands" in the government, whom they termed members of the "Cherry Blossom Protection Association" or "Chrysanthemum Club."

These revisionists changed the terms of debate on U.S.-Japan relations in Washington. Most congressional leaders I visited prior to my confirmation hearings urged a tougher stance on bilateral trade issues. Moderates like Tom Foley—a longtime supporter of cordial U.S.-Japan relations—acknowledged that leaders on the Hill were increasingly wary of defending the relationship publicly. Senator Bill Bradley, who in 1988, despite heavy opposition, had helped push through the Senate the sale of *Aegis*-class cruisers to Japan, kept a low profile throughout the FSX battle, reportedly at the behest of his domestic political advisers.

Press commentary about U.S.-Japan relations was mixed, but strident critics tended to receive the most attention. Poll results revealed, as usual, conflicting views, but an undeniable erosion of public support for the relationship appeared to be under way. In early 1989 mainstream elements of the business community—long regarded as staunch defenders of free trade—issued a report on U.S.-Japan trade issues that stopped just short of endorsing managed trade.

To some degree this mood of frustration was a natural by-product of interdependence. As transactions expanded among people as dynamic and competitive as Americans and Japanese, some friction was inevitable. We were, after all, both necessary partners and natural competitors. Competition brings change, and change breeds dislocation. The losers frequently complain. In the United States, growing numbers of them took their complaints to Washington, where they found an increasingly receptive audience.

As the cliché warns us, familiarity does not always breed greater understanding. To be sure, mutual dependence taught Americans and Japanese more about each other's systems. But as the links between our societies expanded, we became more aware of the institutional differences that separated us. Few Americans knew or cared very much about the difficulties of acquiring a Japanese bank, until Japanese interests had acquired 15 to 20 percent of the banking industry in California. Few Americans had heard of the *dango* bidding system, until U.S. construction firms managed—with help from the Reagan administration—to get themselves licensed to participate in Japanese construction projects. Few Americans knew much about Japan's industrial policy. But those who managed our major steel, machine tool, consumer electronics, and semiconductor firms had learned a lot about Japan's practice of industrial targeting, and they did not like what they had learned. The balance of our mutual dependence appeared to be shifting sharply in Japan's favor, and this was a bitter pill for many Americans to swallow.

Isolationist by tradition, America entered world politics for good only after the Second World War. At that time our preeminent power was uncontested; the other major industrial economies lay in ruins. To combat the Soviet Union we developed globe-encircling alliances and devised a liberal international economic system. To be sure, we relied on our friends and allies for military, economic, and political support, but there was always the comforting assumption that they needed us far more than we needed them. Our predominant power was generally acknowledged; our leadership evoked respect, if not always deference.

By the late 1980s, however, the efficacy of American diplomatic initiatives around the globe appeared increasingly contingent on Japan's readiness to play along and write big checks. At the same time, with the approaching end of the cold war, it seemed likely that Japan's need for our security guarantee would diminish. Our fiscal deficit made us depend increasingly on Japanese investment. Key U.S. manufacturing industries appeared to be under siege: our share of global manufacturing production had declined; our need for imported oil was growing; and we had emerged as the world's largest debtor nation. Japanese competitors seemed poised to do to our high-technology industries what they had done to automobiles, steel, and consumer electronics. Not only was there increased anxiety about our reliance on Japan for key components of even the most sensitive defense systems but a growing apprehension that the Japanese had mastered "lean production," a manufacturing methodology, regarded by many as superior, that had excited the interest of both academics and industrialists in the United States.[1]

In short, Japan's economic power was increasing relative to our own. Its banks were flush with assets; our financial system was struggling to come to terms with a profligate government and the savings and loan fiasco. Japan's manufacturers appeared increasingly formidable and were bidding for preeminence in the high–value-added sectors in which we had traditionally excelled. Despite its reputation as a nation of imitators, the Japanese were overtaking America in the development of many key technologies. As Americans awakened to the growing importance of Asia, they began to fear that Japan had positioned itself better than we to capitalize on the region's growth. This added a poignant footnote to the provocative thesis Paul Kennedy had expounded in his 1987 book *The Rise and Fall of the Great Powers* (New York: Random House): that America was in decline, a victim of imperial overstretch. Little wonder that some Americans looked on the Japanese in the late 1980s the way the British viewed the Yanks at the turn of the century—as a power to be reckoned with. To many, the challenge was profoundly unsettling. Some, to be sure, felt pride in Japan's accomplishments; after all, the United States had been Tokyo's principal postwar sponsor and ally. Some regarded Japan's growing strength merely as a reality to be accommodated. But others began looking for ways of containing Japan's surging power.[2]

The Asymmetries of Interdependence

Interdependence is rarely symmetrical. By the late 1980s the imbalances in the U.S.-Japan relationship were growing. Most appeared to favor Japan, and many seemed to reflect structural differences in our respective economies and societies. Our bilateral trade deficit, which

1. For more on Japan's production methodology, see, for example, Michael L. Dertouzas, Richard K. Lester, Robert M. Solow, and the MIT Commission on Industrial Productivity, *Made in America* (Cambridge: MIT Press, 1989); and James P. Womack, Daniel T. Jones, and Daniel Roos, *The Machine That Changed the World* (New York: Macmillan, 1990).
2. See James Fallows, "Containing Japan: Japan's One-Sided Trading Will Make the US-Japanese Trading Partnership Impossible to Sustain—Unless We Impose Limits on Its Economy," *Atlantic* 263, no. 5 (May 1989): 40–53.

exceeded $60 billion in 1988, continued to climb for two years after the Plaza Accord (1985) nearly doubled the yen's value. And Japan's resistance to manufactured imports and its low levels of intraindustry trade seemed to set it apart as an outlier among the advanced industrial economies.

The investment imbalance was even greater, and as Japanese funds poured into the United States, the obstacles confronting foreign investors in Japan were more widely publicized. Having consciously financed their postwar recovery with domestic savings rather than foreign investment, the Japanese were slow to dismantle restrictions on capital transfers. Cross-shareholding arrangements made friendly acquisitions as well as hostile takeovers of Japanese companies virtually impossible. A result was that foreign-held assets in Japan were roughly one-twentieth the level in the USA.

Trends in technology flows showed a similar pattern. As a latecomer to industrialization, Japan imported considerably more technology than it exported. By the late 1980s, the catch-up phase of Japan's industrialization was over, yet its deficit in technology trade persisted. Technology exports, to be sure, increased, but imports expanded even more. Likewise, bilateral scientific and technological exchanges appeared to be imbalanced: The United States was preeminent in basic research, which was mostly conducted at universities, with the results published openly and available to all. Japan's forte, on the other hand, was in commercializing technology, and the bulk of its R and D was performed in nongovernmental industrial laboratories. Proprietary restrictions inhibited dissemination of the results, and foreigners had limited access to the labs.

In defense technology exchanges, the imbalance was even more pronounced. During the cold war the Defense Department had transferred much technology to Japan to strengthen its defenses, promote the interoperability of allied forces, and lower the unit costs of production runs at home. Until 1983, however, Japan resisted all defense-related technology transfers to the USA—as well as to all other countries—on legal grounds. A legal basis for such transfers was established in 1983, but before the FSX project, for which a memorandum of understanding was signed in the spring of 1989, nothing of consequence flowed our way.

Educational exchanges also seemed to be largely a one-way street. By the late 1980s nearly thirty thousand Japanese young people attended university-level programs in the United States, whereas little more than a thousand Americans were taking courses in Japanese institutions of higher learning. To be sure, compared to their Japanese counterparts' interest in the USA, fewer Americans were motivated to study in Japan, let alone equipped with the linguistic skills necessary for university-level courses. But the imbalance also reflected the relatively greater access accorded foreigners in U.S. educational institutions.

Even our foreign aid programs were marked by asymmetries. Ours was driven by strategic concerns and humanitarian impulses; theirs mainly by economic and commercial considerations. Our aid went mainly to so-called frontline allies and truly destitute peoples in Africa, South Asia, and Latin America. Japan's was concentrated in Asia; it focused on countries at the threshold of industrial success, relied mainly on loans rather than grants, and was heavily oriented to infrastructure projects in which Japanese suppliers of pipe, cement, and construction services were keenly interested. In this implicit triage, we seemed to wind up supporting many of the world's poorest countries, they the emerging, middle-class, industrializing nations.

These imbalances became more consequential politically as cold war tensions subsided. Americans became more attentive to the health of their nation's industries and increasingly measured U.S. competitiveness against Japan's. A low savings rate and relatively anemic investment levels contributed to the competitiveness problems of U.S. firms at least as much as Japan's market access barriers did. But the mote in Japan's eye attracted more attention in Washington than the beam in our own. Japan's market was unquestionably tougher than ours for foreign enterprises to crack. And the American people were undeniably becoming less tolerant of this apparent lack of reciprocity. In the parlance of the day, a major objective of the Bush administration was achievement of a level playing field in Japan.

Closer analysis of the Japanese economy revealed several ways in which Tokyo used governmental power and socioeconomic arrangements to improve its international trade and investment balance:

- The Japanese government played a more expansive role than ours in determining the conditions under which foreign goods, services, technology, and capital were allowed into the domestic market.
- Intimate links among Japanese manufacturing companies, their suppliers, and their main banks—the so-called keiretsu system—

reinforced the government's gatekeeper role in complicating foreign access to the market.
- The Japanese practiced industrial targeting as a means of ratcheting the economy up to progressively higher levels of technological sophistication and higher–value-added production.

Growing consciousness of these differences had inspired the 1988 trade bill. It also redirected the attention of U.S. trade negotiators away from the classic border controls on trade—e.g., tariffs and quotas—to structural and regulatory barriers to cross-border flows of goods, services, and capital. Fair trade, rather than free trade, became a call to arms for many Republicans as well as Democrats in Congress. This focus on fairness seemed natural: equality of opportunity was a fundamental value to most Americans.

As Americans increasingly ascribed the difficulties experienced in trade with Tokyo to Japan's "unfair" trade policies, this label provoked growing irritation and resentment among the Japanese. Just as we practiced different forms of capitalism, so we measured fairness by different standards. To Americans, accustomed to winning, the very size and persistence of our trade deficit with Japan seemed sufficient evidence that something was amiss. The recent experience of our steel, automobile, consumer electronic, and semiconductor companies reinforced the conviction of the country's corporate leaders that the Japanese used the high margins garnered in their protected home market to subsidize aggressive pricing practices in the United States. This precipitated more and more charges of dumping, as well as fueling the belief that Japan routinely practiced predatory, adversarial, or strategic trade. It also prompted growing skepticism about the possibility of obtaining genuine *national treatment* (the principle under which a government treats firms of foreign nations the same as its own) in Japan and precipitated the search for stronger levers with which to achieve greater reciprocity.

Finally, with the growth in Japan's industrial prowess, Americans—particularly their representatives in Congress—expressed growing criticism of the disparity between Japan's economic power and the modesty of its international role. Demands for Japan to shoulder additional international responsibilities and burdens intensified. Among other demands in the 1980s, Washington pressured Tokyo to undertake structural reforms of its economy; to increase its conventional defense efforts and share more of the costs of our forward military deployments; to help in convoying Kuwaiti oil tankers in the Persian Gulf; to help finance international peacekeeping, refugee resettlement, and disaster relief; to direct more of its bilateral aid to countries of strategic consequence to the West; and to share the tab for a variety of other U.S.-inspired international initiatives. Many of these requests were ultimately accommodated, but the process of achieving adjustments left raw nerves on both sides.

Bilateral negotiations over burden sharing bore a strong resemblance to the bargaining over trade. Japanese passivity invited American pressure. Pressure in turn provoked Japanese defensiveness. Frictions attracted press attention, and the issues were politicized. Negotiations were invariably protracted, and concessions came slowly and reluctantly. Exasperation mounted on both sides. The Japanese acquired a reputation in Washington for taking as long as possible to do as little as necessary. Americans in turn came to be viewed by the Japanese as likely to raise yet another demand each time they pocketed a concession. This reinforced Tokyo's disposition to take its time doling out such favors. In the end, the methods employed to cope with the accumulating problems in the relationship seemed increasingly to reinforce those same difficulties.

These then were the principal frustrations I discerned about Japan among Americans in the spring of 1989. It was a combustible mix. Yet the problems were often exaggerated. Critical attitudes toward Japan were more visible on the Hill than within the executive branch. They were more widespread in the Rust Belt than in the Sun Belt. They were more evident in U.S. firms aspiring to enter the market in Japan than among companies that already had become insiders there. They were more frequently heard in the Department of Commerce or the U.S. Trade Representative's office than in the State Department, the Pentagon, or among the National Security Council staff. Still, the criticisms affected the atmosphere; they had caught the attention of the Japanese, and they were to influence the priorities and substance of the Bush administration's approach to Japan.

Japanese Frustrations

Americans were not alone in their frustrations with the relationship. In preparing for my new duties, I had fewer opportunities to assess

Japanese views than American attitudes. But I met with Japanese business executives in New York and Chicago. I visited Mazda's new manufacturing plant in Flat Rock, Michigan. A few leading Liberal Democratic Party (LDP) politicians visited Washington and dropped by to chat. And of course I kept abreast of embassy reporting. From these sources I judged that, pleased with their growing power and autonomy, the Japanese were beginning to find aspects of their own residual dependence on Washington increasingly discomforting.

No less than Americans, Japanese prize their independence and self-reliance. Indeed the history of modern Japan features the quest to avoid Western domination. The Tokugawa shogunate sought that objective through stringent isolation; the Meiji reformers pursued it through pell-mell modernization. The single-mindedness and perseverance they brought to the task was evident in the late-nineteenth-century efforts of Japanese diplomats to terminate the unequal treaties Western powers had forced them to sign during a period of weakness. As Japan's power grew, so too did its ambition. In the late nineteenth and early twentieth centuries, it staked out a sphere of influence in Asia—in keeping with the imperialist ethic of the day. Eventually, Japan's search for dominion in the Far East had calamitous results, bringing the nation to defeat, occupation, and abject dependence on American goodwill in August 1945.

Despite its more or less unconditional surrender at the end of World War II, Japan's dependence on the United States was far from complete, even when our predominance was greatest. Since MacArthur chose to implement the occupation through indirect rule, his reform efforts required the collaboration of the Japanese bureaucracy, which underwent only a brief and incomplete purge. As the cold war heated up, moreover, Japan's strategic value to the United States provided Prime Minister Yoshida considerable leverage in negotiations over the restoration of sovereignty, a bilateral peace treaty, the terms of base arrangements, and the provision of economic aid.

To be sure, Japan regained its sovereignty in 1952 at a price. It had to accept a security relationship with the United States that circumscribed Japan's sovereignty and its diplomatic maneuverability. The USA had permission to use its occupation forces to quell domestic disturbances, and U.S. utilization of bases in Japan was unrestricted. Domestic critics complained about a relationship of "subordinate independence" with the United States. Yet even before pressures for revision of the terms of the agreement led to the 1960 Treaty of Mutual Cooperation and Security, the arrangement carried concrete and immediate benefits. As Prime Minister Yoshida, who regularly took the long view, observed on one occasion, "History provides examples of winning by diplomacy after losing in war."

Just as their nineteenth-century predecessors sought to eliminate unequal treaties, Yoshida and his successors worked systematically at reducing Japan's dependence on the United States. While Japanese diplomats regularly affirmed U.S.-Japanese interdependence, they devoted major efforts to altering its terms and augmenting Japan's autonomy. Seeking to limit their dependence on the United States' security umbrella, they yielded to our repeated requests for Japan's gradual rearmament, insisted on the domestic production of most weapons systems, pursued the indigenous development of technologies that could have significant military applications, and shouldered an ever more consequential share of the local costs of the U.S. military presence in Japan. Content throughout the cold war to maintain a low profile foreign policy that generally followed Washington's lead, Tokyo nonetheless skillfully utilized principles like the "separation of politics from economics" to facilitate commercial activities and quasi-official contact with nations from which it was politically estranged. The governing party even used an informal division of labor with the principal opposition party to extend its diplomatic flexibility. Former prime minister Takeshita commented on this to socialist Prime Minister Tomiichi Muriyama on July 22, 1994: "In the past," he said, "the LDP explained to the West, 'We have a clamorous group called the SDPJ.' Meanwhile, the SDPJ told the East, 'since the LDP is in power.' "[3]

Despite the impoverished conditions of their economy, the Japanese financed their postwar recovery and miraculous growth primarily out of domestic savings to avoid reliance on foreign capital. They utilized industrial policy to foster the growth of industries regarded as essential to the nation's long-term security and prosperity. Readily acknowledging the need for foreign help, particularly in furnishing advanced technology, they set the terms of foreign participation—usually through licensing arrangements—in ways that secured essential inputs without yielding significant control to non-Japanese firms. Although there were obvious limits to the degree to which the Japa-

3. Quoted in *Asahi*, July 24, 1992, p. 2.

nese could reduce their dependence on overseas sources of food, fuel, and raw materials, they went to great lengths to purchase commodities at favorable terms through long-term government contracts, reduce risks by diversifying suppliers, participate in the ownership of overseas agricultural and mining operations, extend generous foreign aid to key suppliers of raw materials, stockpile sensitive commodities, develop synthetic materials as potential substitutes, foster conservation measures for energy resources, safeguard Japan's capacity to supply its own rice, and promote the systematic development of higher–value-added industries that were less reliant on raw materials and energy.

The Japanese had traditionally ameliorated their dependence on foreign commerce by channeling the bulk of their import as well as export trade through Japanese trading companies. This facilitated their ability to buy only what they wanted while refusing to purchase goods and services that might compete with key domestic economic interests. The complexity of the domestic distribution system, meanwhile, limited direct access by foreign firms to Japan's consumers. As pressures from abroad to liberalize market access intensified, the government managed the pace and scope of liberalization in a manner that allowed its firms to adapt to increased competition without yielding much market share in key sectors. And in the face of huge and growing trade surpluses with the United States in the mid-1980s, Japan sought, inter alia, to diversify its commerce by trading more with Europe and Asia, to increase transplant factories in America, to bolster its reputation as a reliable and regular buyer of U.S. debt instruments at Treasury Department auctions, and to invest heavily in Washington lawyers and lobbyists to monitor, deter if possible, and circumvent if necessary protectionist trade bills and administrative rulings.

Undeniably, interdependence brought numerous benefits to Japan. The United States' security guarantee allowed Japan to keep its defense expenditures low. Equally significant, it enabled the Japanese to postpone or moderate an extremely divisive internal debate over rearmament and the complications it would pose for Tokyo's relations with its Asian neighbors. The United States extended Japan a continental market, and Japan was a major beneficiary of the liberal international economic system that we designed and defended. Our diplomacy was generally solicitous of Tokyo's interests.

Yet there were burdens as well. Above all, our persistent trade and current account deficits brought continuous U.S. pressure on Tokyo to adopt expansive fiscal measures, open its market, increase its aid, and share the costs of mutual defense. For Tokyo, some of these requests were easier to field than others. Increasing foreign aid was relatively simple. Current account surpluses needed to be recycled, and the Japanese were adept at using economic assistance to create new commercial opportunities for their private sector. Increased defense cost sharing was manageable, if not particularly popular. But the Japanese bureaucracy dug in its heels when the autonomy of Japan's economic policy was the issue. The key economic agencies in Tokyo viewed recurrent trade imbalances as occasions for a competitive struggle over which country had to adjust its internal policies to facilitate external balance. Throughout the postwar period, moreover, the Japanese felt that the United States had held most of the trump cards. Since unconstrained use of the dollar as a reserve currency was sanctioned, it was difficult for Japan—or anyone else—to force Washington to take the necessary fiscal and monetary steps to reduce its deficit. On the other hand, our ability to threaten to depreciate the dollar or limit Japan's access to the U.S. market gave us considerable leverage with which to press for more expansive fiscal policies or more restrictive monetary policies in Japan.

As many Japanese officials saw it, we had used those weapons in the periods from 1971 to 1973, from 1977 to 1979, and from 1985 to 1987 to force Japan to assume the major burdens of adjustment, despite their growing conviction that profligate American fiscal policies were the principal cause of our persistent trade deficits. Many influential Japanese believed that the USA periodically used raw power to force adjustments in Japanese monetary and fiscal policy because we were not prepared to pursue prudent economic policies at home. In the late 1970s, in particular, the Japanese, against their own predilections, had reflated their economy at our request. The Ministry of Finance was left struggling with the resulting run-up of government debt for more than a decade. This experience hardened Japanese resolve never again to accommodate U.S. pressures for macroeconomic adjustments that the Ministry of Finance considered imprudent.[4] American complaints about Japan's trade and investment strategies were increasingly seen as

4. See Tsuyoshi Kawasaki's analysis of these struggles in his "Structural Transformation in the US-Japanese Economic Relationship," in Henry Bienen, ed., *Power, Economics, and Security*, pp. 266–85 (Boulder: Westview, 1992).

a means of diverting attention from the U.S.'s own domestic shortcomings. Clearly this bred frustration and resentment among Japanese officials as well as among politicians and businessmen.

The process that had been designed to manage these issues was also running out of steam. Macroeconomic policy coordination, under Treasury Department and Finance Ministry guidance, had achieved some notable results—particularly the Plaza and Louvre Accords. It had nurtured rapport and mutual confidence between some key players—for example, Secretary of the Treasury James Baker and Minister of Finance Noboru Takeshita; Federal Reserve Bank Chairman Paul Volcker and Finance Ministry Vice Minister Toyoo Gyoten. And it probably imposed some restraint on beggar-thy-neighbor policies by both sides. Yet by the late 1980s discussions in this forum were regarded by Japanese officials as a dialogue of the deaf. We complained about their trade restrictions; they about our fiscal deficit. Neither side did much to tackle their own problems. Finance Ministry officials regarded the agenda as too heavily dominated by U.S. concerns and too driven by a desire for deals. Their confidence in our readiness to preserve a stable currency and an open market were slipping, and the suspicion that their U.S. counterparts were motivated by a quest for unilateral advantage was growing.[5]

Comparable frustrations were apparent among Japanese trade officials. As Japan's persistent surplus grew, Tokyo accommodated U.S. pressures for restraint primarily through Voluntary Restraint Agreements (VRAs). Not that the Japanese liked VRAs; they simply preferred controlling Japanese exports to opening up the domestic market. Yet U.S. attention increasingly focused on market access. Beef and citrus producers had pressed hard for this, as had a host of other companies representing sectors in which the United States was highly competitive and Japanese regulatory barriers were high—for example, in industrial electronics, medical devices, telecommunications, and wood products. Growing U.S. interest in nontraditional trade barriers was scarcely welcome to Japanese ministries, which utilized an extensive and opaque regulatory system to manage the economy. Few bureaucrats are prepared to cooperate in undermining their own power bases. Leaving the merits of these concerns aside, it was clear that the thinking of key ele-

5. See the recollections of Volcker and Gyoten in their jointly authored volume *Changing Fortunes* (New York: Times Books, 1992).

ments of the Japanese establishment was increasingly out of sync with Washington's views. And as Japanese power grew, its officials were less and less prepared to conceal their irritation or soften their criticism of Washington with stylized courtesy or elaborate circumlocution.

The looming end to the cold war brought other concerns to the surface. There were questions about the reliability of U.S. protection in the absence of an obvious and immediate Soviet threat. How long, many Japanese wondered, would the United States continue to extend a security guarantee to its major competitor when the Soviet threat was gone? While Japan felt domestic pressures to chart more autonomous policies abroad, it was having difficulties defining them. And it faced repeated requests from Washington for support of U.S. initiatives on regional and global problems.

As I prepared to tackle my new assignment, it seemed to me that each country reaped substantial benefits from our growing interdependence, yet both were troubled by its terms. If many Americans regarded the Japanese as predatory traders who shouldered international responsibilities only grudgingly, when pressed, many Japanese viewed the USA as a nation in decline, whining about others without being prepared to address its own problems and more solicitous of its ally's support than its ideas.

Interdependence might be inescapable. But it inspired different policy agendas in Washington and Tokyo. Americans were ready to acknowledge its virtues but were intent on ensuring a more equitable allocation of its benefits. The Japanese were more purposeful about maximizing their own autonomy, but they were also determined to achieve a wider sharing of power and to achieve the respect to which they believed their postwar accomplishments entitled them. Coming to grips with these disparate priorities and extending the considerable range of convergent interests that underpinned the U.S.-Japan relationship represented, it seemed to me, the overriding challenge of my tenure in Tokyo.