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The United States and Japan remain mutually dependent on each other. Yet neither government expects as much from the bilateral relationship as it once did. This chapter explores the adjustments in the terms of interdependence that have resulted from changes in the global strategic balance, the world economy, and domestic politics in both countries. It concludes by suggesting a variety of actions the United States should take in order to assure that the relationship with Japan continues to serve our interests in the future.

The Changing Terms of Interdependence

The end of the cold war undermined the central trade-off that marked the relationship between Tokyo and Washington from the early 1950s to the late 1980s—i.e., U.S. indulgence of Japan's mercantilist trade policy in return for Japan's acquiescence in the United States' cold war strategic leadership. With the easing of East-West tensions, Washington has concentrated on reestablishing the industrial and financial underpinnings needed for a global leadership role, while Japan has focused on increasing its diplomatic autonomy. Each acknowledges the continuing utility of the alliance, but neither is willing to sacrifice as much as it once did to preserve it.

The terms of our mutual dependence have altered in complex

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ways. In the security field both the United States and Japan enjoy wider diplomatic flexibility in the absence of an immediate Soviet or Russian threat. Objectively, however, Washington has regained greater maneuverability. The United States is the world's sole remaining military superpower. It continues to value its defense cooperation with Tokyo, but it can defend itself with or without the alliance with Japan against all plausible military contingencies that directly threaten it. Japan, on the other hand, has developed key building blocks for strategic independence but remains reluctant to pursue that path. Its alliance with the United States continues to be a valuable means of bolstering its security, reassuring its Asian neighbors, hedging against an ascendant China, and avoiding a divisive domestic debate about its strategic alternatives.

In the economic sphere, the picture is more complicated. Both Washington and Tokyo have attempted to fortify their economic self-reliance, yet each remains extremely dependent on the other. The United States belatedly has taken some serious steps to reduce its fiscal deficit; its manufacturing firms have undergone painful but beneficial restructuring; it has forged a stronger North American economic base through the ratification of NAFTA; a more proactive governmental export promotion effort has been targeted at the so-called big emerging markets in Latin America and Asia; and it depends less than it did five years ago on Japan's purchases of U.S. government securities to finance its debt. Though we continue to run a large deficit, its size as a percentage of GDP is now considerably smaller than it was in 1989.

Nor are we as reliant as we were on Japanese foreign direct investment to create jobs and spur growth. A significant portion of the funds Japanese financial institutions invested in U.S. real estate and equities in the late 1980s and early 1990s are being repatriated to fortify the balance sheets of troubled banks, securities houses, and insurance companies at home. (Of course, in a period of slower growth, the United States would miss the large Japanese portfolio and direct investment that offset our low savings rate in the 1980s.) And while we continue to purchase more than a quarter of Japan's exports, Japan's imports of U.S. goods and services stagnated during its recession and now represent little more than 10 percent of our global export trade.

Japan is not the economic juggernaut it appeared to be five years ago. Its banking system is particularly fragile, having suffered enormous losses on domestic stocks and real estate, not to mention a num-

ber of imprudent investments abroad. Still, its manufacturing sector is the largest in the world, and the yen is, arguably, the world's strongest currency. Japan is piling up trade surpluses at record levels, and its pool of national savings is without equal. Through its investment, aid, and technology transfers in Asia, it has established an unrivaled position in the world's most dynamic market. It now exports more to Asia than to the United States. And despite the United States' prowess in developing information-age technologies, Japan is still running huge trade surpluses with us in semiconductors and transistors, computers and peripherals, and even telecommunications. Eamonn Fingleton contends that "the combination of a huge manufacturing work force and high productivity enable the Japanese economic system to aim for almost complete self-sufficiency in advanced manufacturing."¹ This seems improbable. But Japan certainly has developed extraordinary strength in the manufacture of key consumer items, basic materials, and production machinery.

Politically, our mutual dependence appears likewise to have been attenuated somewhat. Preoccupied with domestic issues, the Clinton administration has generated fewer international initiatives for which Japan's financial or political support was critical. (Supplying light water reactors to replace North Korea's old graphite reactors is an important exception.) And as Washington has focused on tough trade talks with the Japanese, it has played down its common agenda with Tokyo. The Japanese government, meanwhile, has sought to bolster its standing among its Asian neighbors by distancing itself somewhat from various U.S. initiatives on human rights, APEC, and China's entry into the World Trade Organization. Cooperation in international organizations appears less visible, in part because Japan is not currently a member of the Security Council, and Tokyo has become more assertive in promoting its own model of economic development in international institutions.

Meanwhile, each country has been devoting more time, effort, and resources to other relationships: the United States with Russia, Eastern Europe, Latin America, and the Middle East; Japan with the rest of Asia. As mentioned in the previous chapter, this has prompted Japanese anxieties about "Japan passing" by Americans eagerly shopping for market openings and influence elsewhere in Asia, while U.S. officials worry

1. See Eamonn Fingleton, *Blindside* (New York: Houghton Mifflin, 1995), p. 76.

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conversely about a possible Japanese bid to lock up the Asian market or back Malaysian prime minister Mahatir bin Mohamad's East Asia Economic Caucus and its more exclusive brand of Asian regionalism.

In some respects, the combined weight of the United States and Japan in the world economy has declined. Europe's integration, the revival of Latin America, the dynamism of China, the rapid growth of Asia's new industrializing economies and ASEAN all reduce the relative economic influence of both countries. And neither of us can dominate new institutions, such as the World Trade Organization and the Asia Pacific Economic Cooperation initiative, that have emerged on the trade front. Whether an awareness of this relative decline of our clout will inspire greater efforts to collaborate or a more spirited competition for influence in Asia and elsewhere remains unclear.

The attempts of both Washington and Tokyo to alter the terms of interdependence to their own advantage have not produced a more comfortable relationship. Elements of rivalry are more visible; cooperative endeavors require more self-conscious effort. Macroeconomic coordination has been sporadic at best. Trade talks, despite the conclusion of several agreements in 1994 and 1995, are marked by bitter acrimony, threats, and counterthreats. And the trade imbalance remains huge.

These difficulties notwithstanding, it is unlikely that the U.S.-Japan relationship will break down. Each country possesses too large a stake in the other's prosperity. Japan may have diversified its trade, but it still exports far more to us than we do to them. While the U.S. manufacturing sector has surely revived, the quality of its industrial production depends heavily on materials, components, and production equipment supplied by Japanese firms. As the world's largest debtor, we will need to tap Japan's savings pool, and in deploying their savings abroad the Japanese will find the help of innovative and efficient U.S. banks and security firms invaluable.

Thus our mutual dependence persists. Threats of economic sanctions, whatever their motive and rationale, carry with them the implicit danger that we may shoot ourselves in the foot. This reality, evident yet again in the recent fracas over autos and auto parts, will continue to exert a restraining influence on our negotiators and impel them to search for solutions that offer benefits to both sides. And the most obvious and logical way to reduce our respective external imbalances—by reducing our domestic savings/investment imbalances—

would improve the health of each of our economies while doing no harm to trading partners.

Ironically, managing our economic ties may prove less treacherous than maintaining the overall alliance. The cohesion of all of the United States' alliances has suffered since the cold war ended—a natural consequence of the removal of an obvious and immediate threat. Yet the U.S.-Japan alliance remains unique in certain respects. Two in particular stand out. First, the asymmetries in the U.S.-Japan alliance create a more acute “free rider” problem than we have experienced in Europe or with other Asian allies. Since the United States extends a security guarantee that Japan does not reciprocate, Washington has naturally expected Tokyo to compensate for this uneven bargain in other ways. Tokyo's substantial financial contributions to the maintenance of our forward-deployed forces in Japan represents one form of compensation. These payments have been ample, and their political effects real. But the continuing imbalance in our respective contributions to a variety of other common goods whose benefits we share—security, open markets, basic scientific research, the protection of the environment, the development of the institutions that foster regional cooperation, and so on—leaves political support for the U.S.-Japan alliance in greater jeopardy than is the case, for example, with NATO.

On the other hand, while the disintegration of the Warsaw Pact left NATO, despite fighting in the Balkans, without a major security threat, North Korea's pursuit of nuclear weapons poses immediate dangers that underscore the continuing relevance of the U.S.-Japan alliance. Yet the framework for operational cooperation between U.S. and Japanese forces in relation to Northeast Asian military contingencies remains ill defined. A crisis in Korea would expose those limits in a way that could revive many of the anguishing problems that plagued our relationship with Japan during the Gulf war.

Difficulties over trade and security echo in the diplomatic and political spheres. Japanese doubts about our reliability as an ally or resentment over what they perceive as U.S. high-handedness in trade talks could fuel efforts to stake out a larger role for themselves in Asia at our expense. Conversely, U.S. irritation at Japan's reluctance to open its market or step up to tough international issues could encourage Washington to downgrade the priority it has accorded this relationship in favor of building stronger links with other Asian nations.

Domestic political developments in both countries, moreover,

complicate efforts in both Washington and Tokyo to undertake the steps necessary to put the relationship back on track. In Japan, weak coalition governments have exhibited neither the strength nor the will to deregulate the economy or open the market wider to foreign competition over the objections of a determined and powerful bureaucracy. And the halting steps toward a political realignment raise doubts about prospects for administrative reform in the absence of further external shocks to the system. In the United States the Clinton administration has turned its attention decisively to domestic matters. And while the 1994 mid-term elections brought Republican control of Congress for the first time in forty years, the new majority has likewise focused its attention on domestic reform, though with a decidedly different agenda. To the extent it concentrates on achieving greater fiscal prudence and providing incentives to increase savings and investment, its efforts could in time ease U.S.-Japan trade tensions. But achieving such results generally requires bipartisan support, and with presidential elections again looming, the prospects for that are, at best, uncertain. The politics of trade policy, meanwhile, has changed. In the 1980s U.S. companies sought the government's help in protecting the home market from Japanese competitors. Now, more confident of their competitiveness, they seek Washington's help in opening foreign markets.

Returning U.S.-Japan relations to a sounder footing will not be an easy task. But it remains critical to the defense of U.S. interests in a region that contains a large percentage of the world's people and much of its most efficient manufacturing. The balance of power in Asia remains critical to our security. In the search for an equilibrium, Japan is a natural ally. It is a maritime trading nation with no territorial ambitions and a huge stake in the freedom of the seas. Its economic power is so great that significant decisions regarding the multilateral trading and financial system require its assent. And as a democracy with a modest nonnuclear military establishment, it values our security commitment. Whatever our bilateral trade difficulties, Japan remains our largest overseas commercial partner. Efforts to cope with regional problems in Asia—whether in Korea, the Taiwan Straits, or the South China Sea—have little chance of success without parallel U.S. and Japanese diplomatic efforts. And the quest for a Pacific Community will stand or fall on our ability to work out an acceptable accommodation among the basic interests of the major Asian powers—first and

foremost, the United States and Japan—just as the success of the European Common Market depended on an accommodation between the interests of French farmers and German industrialists.

These shared interests are often forgotten as we struggle over one or another trade issue. But several trends should improve prospects for easing U.S.-Japan tensions over trade in the future. First, the globalization of finance and production is prompting U.S. and Japanese companies to strike up more and more of the strategic alliances that Peter Drucker has described as the principal force driving the integration of the world economy.² Intensified collaboration among our companies may not produce a borderless economy, but it is smoothing off some of the rough edges of technonationalism on both sides of the Pacific. Intel may dominate the design of the world's most sophisticated microprocessors, but it relies on Sharp for the manufacture of the memory devices it designs. Mazda remains a formidable auto manufacturer, but its future depends on its relationship with Ford. Ito-Yokado bought out the Southland Corporation's stake in the 7-Eleven retail store chain, but its bid to reduce the prices of consumer items to Japanese customers depends importantly on outsourcing arrangements with U.S. and other foreign suppliers. Examples of such cooperative relationships multiply daily.

Second, there has been a perceptible convergence in the U.S. and Japanese brands of "corporate" and "cowboy" capitalism. This is a tribute to the power of competition. As each nation's firms struggle for market share and profits in a global economy, they tend to emulate those of their competitors' practices that produce favorable results. In the late 1980s U.S. firms seemed more often the pupils; Japan's the mentors. Many of our most successful companies augmented their competitiveness by adapting certain Japanese practices—e.g., lean production methods, just-in-time delivery systems, total quality management, less adversarial patterns of labor-management relations, and more durable links between manufacturers and suppliers—to their own requirements. The benefits were enormous, as the enhanced productivity of the U.S. manufacturing sector attests.

The tables have turned in the 1990s, when Japanese managers are examining our experience in restructuring to find new ways of cut-

2. See Peter Drucker, "Trade Lessons from the World Economy" in *Foreign Affairs* 73, no. 1 (January/February 1994): 102-4.

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ting costs while increasing efficiency. They are studying our educational system and corporate culture for clues as to how the USA continues to spawn successful start-up companies marked by technological virtuosity and entrepreneurial spirit. They are adapting features of our distribution system to provide greater convenience and lower prices to consumers. And they are finding in our service sector many innovative ways of using information technology to improve the productivity of their own firms.

Thus the globalization of the marketplace is driving us to harmonize to a greater degree our industrial structures and our business practices. Nor have governments been immune from this process of mutual emulation. Over the last decade U.S. officials and politicians have rediscovered the virtues of fiscal prudence and the benefits of export promotion. Washington has provided new incentives to commercialize technology for civilian use and relaxed antitrust guidelines to facilitate international competitiveness. Conversely, Japanese officials are acquiring a growing awareness of the need for deregulation and more rigorous enforcement of the antimonopoly law. Indeed, MITI's annual trade white paper warned in early 1995 that Japan risks being left behind in the global economy unless it hastens to deregulate, cut prices, and make itself more attractive to foreign investors.³

The homogenization of our economic systems is neither possible nor desirable. It would eliminate the diversity that makes life interesting and trade necessary. But the convergence under way has, I believe, undermined a hypothesis advanced by geoeconomists a few years ago:⁴ namely, that acute conflict between differing forms of capitalism would displace the cold war struggle between capitalism and communism. Certainly, economic competition with our allies has intensified, but it is no life or death struggle.

In an age of mobile capital and rapidly expanding foreign direct investment, the nature of national competitiveness is also changing. With its mercantilist tradition, Japan has tended to measure its competitiveness by the size of its trade surplus, and it puts much effort into promoting exports and discouraging imports. But as Vincent Cable has recently observed, "competitiveness is no longer predominantly a trade issue. Rather, it is about creating the right business

3. See *Japan Digest* 6, no. 20 (May 29, 1995): 21.

4. See, for example, Edward Luttwak, *The Endangered American Dream* (New York: Simon and Schuster, 1993).

conditions—infrastructure, deregulation of markets, skilled and educated labor, financial stability—to attract or retain mobile capital.”⁵ In some respects the United States, arguably, is faring better than Japan. For example, despite its strong domestic savings rate, at least some Japanese economists and commentators have acknowledged that a low level of foreign direct investment in Japan is an indicator of weakness rather than strength. A serious effort to facilitate foreign direct investment in Japan obviously would have a salutary effect on our relationship.

Third, the evolution of our economies is creating additional shared interests. As Japan’s foreign direct investment grows, so does our mutual interest in fashioning clearer multilateral rules for protecting such investments. As Japan’s preeminence in manufacturing is increasingly challenged by Asian neighbors, its interest in rules against dumping and countervailing duties will more closely resemble our own. As its manufacturing sector moves to higher and higher technological levels, its stake in effective multilateral rules to protect intellectual property should increase. And as Japan locates more of its production facilities overseas, its market is becoming more open to imports of manufactured goods. Of course, many of these imports are sourced from Japanese subsidiaries abroad, but the firms of other countries will benefit as well, since the links between Japan’s overseas manufacturers and their suppliers will be less ethnocentric and exclusive than the *keiretsu* ties at home. Insistent demands for higher local content will see to that.

Fourth, our societies also face a growing array of common problems: how to care for an aging population; how to sustain jobs for our blue-collar workers as we compete in a global market; how to protect the environment from the ravages of industrial pollution; how to preserve growth without succumbing to those social pathologies that appear to accompany mature industrial status (drugs, crime, the erosion of family values, etc.); how to contain global public health problems such as AIDS; how to draw former socialist countries into the international economy; and how to cope with a wide range of natural disasters. Our approaches to these various issues will undoubtedly differ from case to case. But they will also invite—and occasionally

5. See Vincent Cable, “The Diminished Nation-State: What Future for the State?” in *Daedalus* 124, no. 2 (spring 1995): 32.

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demand—increasing collaboration among groups within our countries, and, indeed, within our governments as well.

Finally, our shared strategic concerns did not disappear when the cold war ended. The United States' stake in Asia is growing. It is the region in which we have our largest and most rapidly growing trade. It is an area in which the interests of all the major powers intersect. It is the only region in which we might conceivably face superpower-sized security threats in the early twenty-first century. As trading nations, we and Japan share a vital interest in preserving the security of sea lanes and stability in the world's most dynamic economic region. As peaceful nations and status quo powers, we also share an interest in arresting the spread of weapons of mass destruction and preserving an alliance that produces an indispensable hedge against the strategic uncertainties that loom on the Pacific horizon.

What Is to Be Done?

All that said, the fact remains that U.S. relations with Japan are drifting. No immediate crisis looms, yet an undeniable awkwardness surrounds the relationship. The alliance between Tokyo and Washington has seen its ups and downs before, and ways have always been found to muddle through. We can probably do so again. Yet failure to overcome the current malaise will diminish U.S. opportunities to expand exports and investment flows to Japan, forfeit Tokyo's help in tackling a variety of regional and global problems, undermine the confidence that is essential for our alliance, and invite a more intense and open struggle between Japan and the United States over the future shape of Asian regionalism.

What then can be done to put our relationship with Japan on a more solid footing? The most immediately pressing problems, as usual, lie in the field of trade. And that is a good place to start. Both countries bear their fair share of responsibility for the sizable external imbalances that we run with each other and the world. It is time we each put our own house in order. Since the U.S. current account deficit reflects the disparity between our savings and domestic investment, only we can take the steps necessary to reduce or eliminate it. If we succeed, it will strengthen our position not only with Japan but with all our trading partners.

Thus the starting point for achieving a more balanced economic

relationship with Japan must be a renewed emphasis on economic fundamentals at home. Our most urgent national requirement is to raise our abysmally low rate of savings. The future of our economic well-being depends on this. Yet the problem has not yet been accorded the attention and priority it deserves. President Clinton put deficit reduction on the national agenda in a serious way with his 1993 deficit reduction package, which promises some reduction in government dissaving. Little has been done, however, to provide stronger incentives to encourage personal and corporate savings and investment. Having evidently concluded from the Democratic Party's stunning defeat in the 1994 mid-term elections that there was no political payoff in deficit reductions, moreover, President Clinton left responsibility for the problem largely to the Republican-controlled Congress. Ironically, failure in the Senate of the proposed constitutional amendment requiring a balanced budget may have had the fortuitous result of denying politicians an easy way out—i.e., a chance to appear interested in reducing the fiscal deficit without having to make hard budgetary choices for several years. Since then, Republican leaders in both the House and Senate have put on the table detailed plans designed to balance the budget within seven years. And this has prompted the president—in a reversal of the customary executive and legislative branch roles in budgetary politics—to put forth a comparable plan of his own. For the first time in many years, leading members of both the House and Senate are likewise promoting reforms of the tax system designed to discourage consumption and raise personal savings and corporate investment. This is encouraging. But it will require a broad public consensus and/or political courage on both sides of the political spectrum to achieve the passage of such budget and tax reforms.

Second, we cannot afford to rely principally on exchange rate adjustments to cure our current account deficit. In an era of floating currencies, each day brings new evidence of the difficulty governments face in managing exchange rate fluctuations. When roughly a trillion dollars changes hands in the exchange markets each day, government intervention to bolster the value of a nation's currency rarely has more than a brief and superficial effect. Yet the periodic temptation to attack our trade deficit with Japan by talking up the yen occasionally appears irresistible to some in Washington. There are several possible reasons for this. A weak dollar increases the competitiveness of U.S. exports and should diminish our propensity to import. Con-

versely, a strong yen erodes the profitability of many Japanese exporters, and Treasury officials have assumed, perhaps, that a rising yen would force the Japanese government to take bolder steps to reduce its trade surplus by stimulating additional domestic demand or removing regulatory barriers to imports. The increased value of Japan's exports, however, offsets for lengthy periods the effect of their reduced volume in Japan, not least because the benefits of a strong yen are not generally passed on quickly or fully to Japanese consumers.

Whatever the logic, the results of such efforts can be perverse. A weak dollar encourages inflation at home while sharply increasing the cost of doing business abroad. This in turn discourages U.S. firms from investing in the Japanese market at a time when an increased corporate presence there is critical to the ability of our firms to achieve greater exports to Japan in the future. As the yen has grown stronger, the profitability of Japan's leading exporters has indeed suffered, but a strong currency also permits Japanese companies to acquire production facilities in Asia at fire-sale prices, thereby strengthening their regional position and reducing their future vulnerability to currency fluctuations. In late summer 1995 the Federal Reserve Bank and the Bank of Japan engineered a successful joint intervention in currency markets, which encouraged a substantial depreciation of the yen against the dollar. Whether the effects will prove more than evanescent depends on whether other fundamentals underlying each country's external imbalance are addressed.

Third, despite the Clinton administration's determination to include targets in trade agreements with the Japanese, it has generally ignored the objective criterion that perhaps has the most salience with Japanese consumers and companies: namely, the wide price disparity in Japan and abroad for a variety of tradable goods and services. This feature deserves much greater attention in our bilateral trade strategy. The readily verifiable price gap points one directly to those sectors of the Japanese economy in which limits on competition are most stringent. The restrictions—whether accomplished through tariffs, quotas, oligopolistic practices, arbitrary and opaque regulations, or a complex distribution system—drive up prices both for Japanese households (which pay much more than they should for life's necessities) and for Japanese companies (whose costs have been skyrocketing in the face of a rising yen). By focusing negotiations on these sectors—for example, agriculture, financial services, transportation, construction,

telecommunications—and emphasizing the need for accelerated deregulation and dismantling of other limits on competition, we stand a better chance of gaining support for our negotiating objectives from significant Japanese constituencies, such as the press, consumer groups, the business community, and even some elements of the political establishment.

Fourth, we should resist generalized efforts to imitate Japan's industrial policy. MITI can claim some important postwar industrial policy successes, but it has also experienced its share of failures. We do not need our own Ministry of International Trade and Industry. The most helpful industrial policy Washington could pursue would be to adopt prudent fiscal policies that keep inflation low and provide incentives for savings and investment while improving the quality of our primary and secondary education and sustaining support for a high level of basic scientific research. This last deserves special attention at a time when traditional sources of support for such research—e.g., federal R-and-D budgets for NASA, the NIH, and the departments of Defense, Energy, and Agriculture—are all under intense pressure. To be sure, there may on occasion be justification for encouraging precompetitive collaboration among our companies to promote the rapid development of certain technologies critical to our national defense and industrial future. The Sematech consortium, for example, supported by both federal and corporate resources, has had a salutary impact on U.S. semiconductor manufacturing capabilities. Federal support to encourage work on advanced flat panel display systems has also been authorized and may perhaps be warranted in the light of the importance this technology will have on a variety of industries and defense systems. But on balance I believe such support should be reserved for exceptional cases rather than provided as a general rule.

We do need, however, to weed out many of our domestic laws and regulations that undermine the international competitiveness of industries in which we enjoy a significant comparative advantage. Too often we have pursued domestic policies with scant regard to their effect on our ability to compete abroad. We no longer have that luxury. Some of the items on the GOP's Contract with America address such concerns: for example, tort reform and proposed changes in product liability laws. The Clinton administration has focused on other ways of enhancing U.S. competitiveness (for example, by augmenting export promotion activities). A major test will be our readiness to take

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the steps necessary to preserve and bolster the competitiveness of our aircraft and aeronautics industry—which remains a crucial source of exports and a central pillar of our defense capabilities.

Fifth, in encouraging the opening of Japan's market and a resolution of bilateral trade disputes, we should rely more heavily on multilateral pressure. With the conclusion of the Uruguay round, multilateral trading rules have been tightened up and extended to new fields. Meanwhile, APEC is gathering momentum as a potentially valuable forum for fostering trade liberalization. In the post-cold war era we must increasingly define our trade negotiating objectives vis-à-vis Japan in terms that are defensible outside U.S. policy-making circles and capable of mobilizing the support of Japan's other trading partners. If we assert that Japan is an outlier, we must be prepared to defend that contention convincingly in multilateral bodies. If such claims evoke support, they will carry greater weight with the Japanese public, press, and government. If we cannot make the case persuasively beyond our borders, we are unlikely to achieve success in bilateral negotiations with Tokyo.

Pressure should be focused particularly on the excesses and lack of transparency in Japan's regulatory system. All of Japan's trading partners suffer from the arbitrariness of its administrative practices. It remains the only major democratic country without a code of administrative procedure. The preferential features of its administrative guidance system impose burdens on all foreign firms and undermine governmental claims of fidelity to the principle of national treatment. Emphasis on deregulation, moreover, would enable foreign negotiators to enlist support from Japanese constituencies that suffer from excessive bureaucratic direction.

While we must pay more attention to the overall health of the global trading system, we cannot, to be sure, forswear bilateral trade negotiations with Japan. Regrettably, the World Trade Organization's rules still do not cover many of Japan's most effective informal trade barriers. Bilateral sectoral negotiations have demonstrated their value, and they will continue to be needed. Where the barriers to market entry in a particular sector are high and sanctioned by government authorities, we should devote less time to expressing public indignation and concentrate more on quietly but resolutely making Japanese exporters pay a price. One way or another we should seek a greater parity of trade and investment opportunities. If Japan cannot streamline its customs procedures or remove burdensome certification

requirements, we should have the wit and the will to subject their exports of key items to the United States to comparable burdens. Reciprocity should be the objective.

Sixth, while it is frequently frustrating to do business in Japan, the belief that our companies can stake out a strong position in Asia without penetrating the Japanese market is a delusion. There has been a discernible tendency of late for U.S. companies to redirect their attention from Japan, with its high costs and burdensome regulations, to more rapidly growing markets elsewhere in Asia. This is matched by a certain "Japan fatigue" among U.S. trade negotiators, who appear eager to devote more of their efforts to the big emerging markets in Korea, China, Indonesia, and India. Some evidence of this shift in priorities is beginning to show up in trade and investment statistics. Direct U.S. investment in Japan remains low. The number of U.S. electronics firms in business in Japan has declined. U.S. business publications in Japan are cutting back. Many financial services firms have moved their regional headquarters to Hong Kong or Singapore. A number of U.S. construction companies have thrown in the towel on the Japanese market. And many U.S. firms have withdrawn from the Tokyo Stock Exchange.

Many of these decisions reflect the fact that Japan is a tough, expensive, and highly regulated market. And Japanese firms, after all, are also relocating many operations overseas. Yet Japan still accounts for nearly two-thirds of the entire East Asian economy, and it is difficult to see how a company can develop an effective regional strategy while ignoring the largest segment of the regional market. Moreover, Japan is the second largest economy in the world and possesses the most efficient manufacturing sector. U.S. companies that wish to achieve world-class status must test themselves against their most difficult competitors on their home turf. If they have no presence in Japan, they will deprive themselves of the ability to tailor products to local tastes, monitor Japanese technological and product developments that they will soon encounter in other markets, and force their rivals to compete in their own market on the basis of price as well as quality.

Nor is pessimism about the USA's ability to compete in Japan warranted. Firms with high-quality products and the perseverance to overcome the costs of market entry in Japan have demonstrated again and again an ability to develop strong profit centers in most segments of that market. In fact, an A.T. Kearney study concluded that U.S. firms have been more profitable in the Japanese market than have Japanese

and European companies during the current economic downturn.⁶ If our companies succeed in Japan, they can surely compete anywhere; success in Taiwan, or Thailand, or Indonesia, however, offers no comparable guarantee of success in Japan.

Seventh, we must devote particular attention to expanding our foreign direct investment in Japan. Since intrafirm trade now constitutes nearly half of world commerce, the presence of U.S. production operations in Japan will clearly enhance our ability to export to that market. Foreign direct investment in Japan has been growing recently at rates roughly comparable to that in other advanced countries, but because of past restraints, recent growth has been from an extremely modest base.⁷ And although formal impediments to foreign direct investment in Japan have been generally dismantled, a host of informal barriers remain. Some of these are now gradually coming down. Land prices have declined significantly. A soft labor market eases the difficulties of recruiting local staff. The prolonged recession has reduced resistance to mergers and acquisitions. And growing concerns about the hollowing-out of Japanese industry should create a more receptive mood toward foreign investments that create local jobs. This is a subject that deserves more attention in both bilateral exchanges between the Treasury and the Ministry of Finance and among APEC members generally. It also requires greater public discussion in the United States. Ross Perot and the labor unions have contributed to a widespread public misimpression that overseas investments invariably encourage the export of jobs. There is little evidence to confirm this. In fact, the 1960s and 1980s, which saw a rapid expansion of U.S. direct investment abroad, were both periods in which employment increased dramatically at home.

Eighth, in the interests of our consumers and our productivity, we should continue to guard against creeping protectionism. Because Detroit faced the full force of Japanese competition in the U.S. market throughout the 1980s, the Big Three are far more competitive today. Those sectors of our economy that have steadily increased their participation in the global system (finance, pharmaceuticals, information technologies, and the like) are acknowledged global leaders. Those that have secured heavy protection from Washington—such as

6. See *Japan Digest* 6, no. 20 (May 29, 1995): 11.

7. For an assessment of recent trends, see Marcus Noland, "Implications of Asian Economic Growth," paper prepared for the Council on Foreign Relations Asia Project, November 1994, p. 19.

textiles and agriculture—have declined in efficiency while absorbing huge governmental subsidies. Protection remains a crutch that breeds dependence and invites inefficiency. Nor can it protect jobs for very long, for Americans generally refuse to pay higher prices for goods and services just because they are produced at home—a healthy instinct from which the Japanese have much to learn.

It will be easier to check protectionist pressure if we retain a sense of proportion about our trade imbalance with Japan. We cannot measure a relationship as diverse and multifarious as ours with Japan merely against monthly bilateral trade statistics, particularly when the familiar methods of compiling such statistics do no justice to our complex trade patterns. For example, they do not adequately account for services trade, yet we are the most competitive supplier of services in the world. Peter Drucker has estimated that our surplus in service exports is about two-thirds the size of our merchandise trade deficit, and that gap is narrowing.⁸ Yet prior to early 1994 the Commerce Department did not even hazard an estimate of our service exports in its monthly trade figures.

An increasing percentage of world trade is affected by strategic alliances among U.S. and Japanese companies. Yet many of the transactions embodied in these alliances are likewise missing from the trade statistics. The massive activities of our respective multinationals profoundly influence trade flows through transfers among their divisions. This further skews our bilateral trade statistics with Japan, because U.S. multinationals moved production facilities overseas much earlier than did the Japanese, and ours export a much larger percentage of their products back to the United States. The trade numbers, moreover, do not adequately account for the daily movement of vast sums of capital at a time when the complementarity of trade and investment is greater than ever before. In short, to the extent that we allow trade statistics to color the atmospherics and determine the substantive agenda of the U.S.-Japan relationship, we should at least find a more accurate way of describing the underlying size and scope of our trading patterns.

Finally, it is important to remember that precisely because our economies are interdependent, we retain a crucial stake in Japan's con-

8. See Drucker, "Trade Lessons," pp. 101–2. Drucker attributes our deficit largely to the underestimation of services exports, our profligate use of petroleum, and a decline in both the volume and prices of farm exports.

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tinuing growth and prosperity. Some Americans have expressed—and others undoubtedly have felt—a sense a *schadenfreude* over recent Japanese economic difficulties. This is perhaps understandable but is neither worthy of us nor wise. It neglects our own interests. If Japan's growth rate were higher, our exports would increase faster. And if Japanese profits and wages increased more rapidly and their jobs were more secure, they might more readily open their markets wider to foreign products. Instead of concentrating so single-mindedly on trade disputes, we should therefore offer Japan further encouragement to stimulate consumer spending and business investment. By helping themselves in this way, they would also help us and the rest of the world.

Of course, even if we honor all these guidelines, our trade deficit—with Japan and with the world at large—will not recede overnight. It took a long time to get into our current fix, and it will take considerable effort to get out of it. Yet if we take these various admonitions to heart, we can ease political strains and substantially alleviate our trade imbalance with Japan while positioning our companies to compete more effectively both in Japan and in other markets.

The Future of the U.S.-Japan Alliance

Some Americans question the necessity for an alliance in the post-cold war era. Among Republican leaders, Pat Buchanan is the most outspoken proponent of its termination. Dissolution of the alliance is the logical corollary of the policies promoted by many of the economic nationalists within the Democratic Party as well. To date, however, few within the political mainstream agitate for an end to the Treaty of Mutual Cooperation and Security or the withdrawal of our forward-deployed forces in Japan or Korea. Congress appears content with current cost-sharing arrangements. And the Clinton administration has not only reaffirmed the value it attaches to the alliance but has assured the Japanese that we expect to maintain our current force levels—roughly 100,000—in Asia for the next several decades.

Yet doubts have grown about the necessity for this alliance. Intense trade frictions have raised the levels of mutual distrust, and neither side appears as willing as it was in the past to compartmentalize trade and security issues. Questions have also been raised as to how useful the

alliance would prove to be in the face of a full-blown crisis in Korea. As *The Economist* recently put it: "Would it pass the kind of test that NATO failed in Bosnia?"⁹ That is, would it be able to function effectively in the face of North Korean provocations?

If this issue has not been on the front burner in Washington and Tokyo, it is in part because the security environment in East Asia is more benign and less threatening than it has been in decades. The balance of forces among the major powers—China, Russia, Japan, and the United States—appears reasonably stable. The prospect of military conflict among them is remote; all are pursuing generally moderate policies in Asia; each is preoccupied with domestic problems; relations among them are more or less amicable; and they have collaborated on occasion to defuse regional conflicts, such as those in Cambodia and Korea.

The U.S.-Japan alliance was forged to prevent the Soviet Union from dominating the Eurasian land mass. Throughout U.S. history, we consistently have acted to prevent powerful and hostile nations from ganging up on us. Today, happily, neither Russia nor any plausible combination of other powers currently threatens to achieve such dominion. And alliances among the other major powers appear currently problematic.

As noted in chapter 7, both a Russo-Japanese and a Sino-Japanese alignment seem extremely unlikely. The reestablishment of a Sino-Russian alliance appears equally implausible. Sino-Russian trade, to be sure, is growing; China can provide Russia with cheap and abundant consumer goods, while Russia can offer China energy resources and needed raw materials. Yet both possess more natural economic associations with others, and a Sino-Russian axis would alienate Russia from the West and China from its neighbors in Asia. Nonetheless, improved ties between Moscow and Beijing have already relieved both of the incentive to deploy large forces along the Sino-Russian border, thereby freeing their hands either to redeploy their ground forces or reduce their size.

To be sure, some legacies of the cold war still fester in Asia. North and South Korea remain antagonistic and heavily armed. Relations between Taiwan and China have improved, but the Taiwan issue

9. "America, Japan and the Unmentionable," *The Economist* 336, no. 7903 (February 25, 1995): 33.

remains unresolved. Territorial disputes abound, and arms purchases are up throughout the region. The cold war security system, centered on the U.S. alliance structure, is fraying around the edges—for example, the Philippines terminated U.S. access to bases at Subic and Clark; the Thai turned down a U.S. proposal to position materiel and equipment offshore; defense relations with New Zealand have been in suspense for a decade; Australia's defense planning now emphasizes greater self-reliance; and key figures in Japan and in Korea question the durability of the United States' commitment to them. Yet no regional security system has emerged to replace it. And in the past, periods during which new military or industrial powers appeared on the scene were marked by intense rivalry and frequent conflicts; today, both China and Japan stand on the threshold of superpower status.

In this more benign yet fluid political setting, the United States has a variety of strategic options. One possibility would be to withdraw our military forces from Asia and confine our security policy largely to the Western Hemisphere. Such a course of action would be historically anachronistic: Asia is the region in which we have our largest and most rapidly growing economic interests, and it is the only area in which a superpower-sized threat to our national security might conceivably emerge in the early twenty-first century. Another option would be to encourage the ASEAN Regional Forum (ARF) in the hope that it might develop into a genuine collective security. But the prerequisites for collective security—a common perception of threats, general agreement about the territorial status quo, and a sense of community underpinned by widely accepted political and philosophical principles—have not yet taken root in Asia. Hence a wider Pacific security community is a goal toward which we should aspire; it is not a reality on which Asian nations are presently prepared to rely. Neither can we.

A third possibility would be to seek to build a NATO-like multilateral alliance in Asia. But this begs the question, against whom would such an alliance be forged? A fourth alternative would be to carve out a role for ourselves as the neutral arbiter of the Asian equilibrium—a role akin to that of England in the European balance of power system. This would amount to a policy Josef Joffe has described as “anti-hege-

10. Josef Joffe, “‘Bismarck’ or ‘Britain’? Toward an American Grand Strategy After Bipolarity,” *International Security* 19, no. 4 (spring 1995): 94–117.

monism without entanglement.”¹⁰ It would entail remaining aloof from durable commitments to other major powers, aligning ourselves against the most powerful and aggressive Asian nation only if and when the overall balance of forces appears in jeopardy.

Pursuit of such a strategy of flexible alignment could limit our current defense burdens in Asia while maximizing our diplomatic maneuverability. Our nuclear arsenal would give us the defensive strength to match our power projection capabilities. And we could presumably ignore many local conflicts in Asia on grounds that they would not immediately affect our core national interests.

Chalmers Johnson and E. B. Keehn stated the case for a strategy similar to this in their *Foreign Affairs* article “The Pentagon’s Ossified Strategy.” They argue that the U.S.-Japan alliance is both outdated and unnecessary; that our strategic guarantee represents a flawed attempt to buy Tokyo’s cooperation while preserving the appearance of U.S. strategic hegemony in the Pacific; and that perpetuation of the alliance impedes the development of responsible economic conduct by the Japanese, enables Tokyo to delay further a serious effort to come to terms with its past, and robs us of leverage in bilateral trade negotiations. They are equally critical of the Clinton administration’s recent pledge not to alter the size of U.S. forward-deployed forces in the Pacific—a policy which, they argue, gives “Japan and China a few years to consolidate their ascendancy in Asia” at our expense. “Only an end to Japan’s protectorate status,” they conclude, “will create the necessary domestic political conditions for Japan to assume a balanced security role in regional and global affairs.” Instead of preserving the alliance, they urge that the United States play a flexible balancing role among China, Japan, and the ASEAN countries while taking steps to avert what they regard as the real danger, i.e., “armed impotence” and growing dependence on Japanese components for our defense technology.¹¹

I agree that the United States should play the role of balancer and broker in the Pacific. But for the foreseeable future I believe we can more effectively acquit those responsibilities with the U.S.-Japan alliance than without it. Flexible access to Japanese bases enables us to project our power efficiently into the western Pacific, and Japan picks up a large share of the cost of our forward presence. Far from compli-

11. See *Foreign Affairs* 74, no. 4 (July/August 1995): 104, 107, 114.

cating our relations with Asian nations, the alliance remains a source of reassurance to virtually all countries in the area. At a time of flux and fluidity in the Asian balance, termination of the U.S.-Japan alliance would generate a host of new uncertainties. Such a drastic step is scarcely warranted in order to encourage the Japanese to come to terms with their past; their desire to play a larger role in Asia is compelling them to do that in any event. Nor is it self-evident that a retreat from defense cooperation with Tokyo would induce more cooperative Japanese policies on trade issues. Unilateral termination of the alliance could just as easily reduce Tokyo's incentives to accommodate our commercial interests, while encouraging it to "tilt" further toward its Asian trading partners.

More broadly, the alliance has provided one of the sources of predictability and stability underlying Asia's phenomenal economic growth. As Joe Nye has put it, political order, to which our alliance with Japan has contributed so much, is like oxygen; we take it for granted unless it is not available.¹² Termination of the alliance could weaken the underpinnings of the region's prosperity and hasten the drift toward renewed Japanese-U.S. strategic rivalry. In that case we would find ourselves for the first time in decades having to organize our Pacific strategy with one eye cocked toward the possibility of future conflict with Japan—a surefire way of generating new defense requirements and new budgetary demands. Could we live without the alliance? We did throughout much of our history, and could again. But Johnson and Keehn exaggerate the benefits of termination and underestimate its risks.

At a minimum, termination of the alliance would raise new questions about Japan's future strategic posture, scarcely an advantage for a status quo power like the United States. At a time when the Sino-Japanese-U.S. triangle is the core of the Asian equilibrium, this could impel Tokyo either toward strategic rivalry with Beijing, or, alternatively, more intimate collaboration with it. Neither would serve our interests in Asia. The former would breed instability and perhaps conflict; the latter could fuel joint efforts to promote more exclusive patterns of pan-Asian regionalism at our expense. And what of the impact on our international credibility—let alone our self-respect—

12. Joseph Nye, "The Case for Deep Engagement," *Foreign Affairs* 74, no. 4 (July/August 1995): 91.

of walking away from security commitments in Northeast Asia at a time when North Korea has not definitively abandoned its nuclear aspirations?

Thus I believe Americans are unlikely to be able to skillfully play the “in-and-out” game the way Castlereagh’s England did. We should strive for a different role in promoting a regional equilibrium. We face no imminent need to balance Asian rivals. We do confront the challenge of inducing friends and potential adversaries alike to join in consolidating a generally benign and favorable political and territorial status quo in Asia. As in the past we have a vital interest in preventing potentially hostile powers in that region from ganging up against us. And for that purpose our guideline should be to cultivate better bilateral relations with the key nations of Asia—Japan, China, Russia, Korea, Indonesia, and others—than they enjoy with one another. This requires a policy of active engagement, and in this context our alliance with Japan remains an asset not only with Tokyo but with the other major powers as well. Of course, we also need to provide them all with incentives to continue regarding us as a valued partner and a real or potential ally if trouble should come.

In this connection, our alliance with Japan remains critically important to our position in Asia and our grand strategy in the world. Put most simply, our political, economic, and security interests require a stable balance of power in Asia. No durable equilibrium is likely without our active participation, and our alliance with Japan facilitates our involvement in the Asian balance in an efficient and reassuring way. More specifically, the alliance lends credibility to the United States’ commitment to South Korea at a time when developments on the peninsula are in flux. It reduces Tokyo’s incentives to cross the nuclear threshold. It provides a potential counterweight to other powers, should they reassert expansionist designs. It facilitates the coordination of parallel diplomatic approaches by Washington and Tokyo to unresolved security problems in Korea and the Taiwan Straits. It enables us cooperatively to protect sea lanes in the Pacific through which much of the world’s commerce passes. And it furnishes a possible cornerstone for future regional security arrangements. Needless to add, the Japanese must exhibit sufficient sensitivity to our interests to warrant a security connection. And that means a readiness to extend reciprocal access to their market. Without it, no administration in Washington will be able to sustain political support for the alliance.

Adjustments in the supporting arrangements of the alliance, however, may be required to assure its continuing relevance to the changing security environment in Asia and the demands of politics in Japan and the United States. Two possibilities should be resisted—at least for now: (1) major reductions of U.S. military forces; and (2) an effort to revise the treaty to provide reciprocal defense commitments.

Continuing speculation about U.S. retreat from defense responsibilities in the western Pacific fuels uncertainty in the region and induces East Asian nations to prepare to fill a possible power vacuum. Our forces in Asia threaten no one; their presence is widely accepted; and since their financial support is shared by local allies, withdrawing them would generate savings only if they were eliminated from our force structure. Recent Pentagon announcements that the Clinton administration plans no further reductions for an indefinite period may squelch current fears of retrenchment. In that respect it may have some utility. But Asians know that administrations come and go and that such decisions are regularly revisited. In fact, there is nothing magic about the current level of our forces either in Korea or Japan. They were established under quite different circumstances. There is no reason to rule out future adjustments. But it will be important to manage them in a way that suggests they are prudent responses to changing security conditions in the area rather than merely a by-product of budgetary politics in the United States.

Nor is this a prudent time to encourage Japan to match our commitment to come to its defense, if attacked, with a reciprocal commitment to the United States' security. Balancing our defense obligations has conceptual appeal, but in practical terms it would require Japan to alter its constitution and substantially expand its military capabilities. Such efforts would alarm Japan's Asian neighbors and unsettle Japan's politics without significantly improving our security. Thus we can safely set this aside.

The most immediate challenges the alliance faces are in the Korean peninsula. At present there are ample reasons for doubting whether current support arrangements would permit effective operational cooperation between the United States and Japan in the event of a conflict. Nor are such contingencies entirely implausible. In 1994 many feared that tough UN sanctions against North Korea might provoke a military response from Pyongyang. Such a reaction would have exposed gaps in the ability of Tokyo and Washington to undertake a

coordinated response. For example, Japan's road traffic law forbids the unloading of explosives at night. No Allied Cross-Servicing Agreement exists to facilitate the refueling and resupply of U.S. naval vessels by the Japanese Self-Defense Forces. Arguably, Japanese ships could not even rescue a U.S. vessel damaged by the North Koreans, because that would fall outside their constitutional role of defending Japanese territory. And the lip service the Socialist Party pays to the alliance does not assure their support of operational cooperation between our uniformed services, as indicated by Prime Minister Murayama's reluctance both to deploy Self-Defense Forces and to accept help from U.S. military units at the time of the Kobe earthquake.

The relevance of more detailed contingency planning is thus apparent. So, too, is the need for Japan to review its military roles and missions in the light of post-cold war realities. Obviously, implementation of any new plans or missions presupposes the approval of civilian authorities. But the alliance could not sustain a repetition of the Gulf war experience, particularly if a crisis occurred in Japan's backyard. If Americans are to assume the risks of supporting South Korea in a crisis, they will expect Japan to do far more than merely send checks. Such crises are more likely to be avoided if the alliance is capable expeditiously of forging a coordinated response.

In this connection, developing theater ballistic missile defenses against North Korea is also a possible arena for further collaboration. The U.S.-North Korean nuclear accord promises the dismantling of nuclear facilities some years down the road, but Pyongyang's record of compliance with international obligations is erratic at best. North Korea has pursued the development not only of nuclear weapons but of delivery systems that can reach most parts of Japan. Some elements of the Japanese political and defense establishments have expressed interest in acquiring systems to defend against these North Korean capabilities. Others have demurred.

Should Japan decide that it needed more effective defenses, I believe we should support joint efforts to develop them. We should also expect the Japanese to repay us with reciprocal access to defense-related technology of interest to the Pentagon. But I have long believed that we can safely leave the initiative for cooperation in this field to Tokyo. It is, after all, Japan's security that is potentially at risk. Its initial reaction to U.S. proposals for cooperation in theater ballistic missile defenses revealed a host of political, financial, and diplomatic reservations.

Japanese have lived in the shadow of formidable Chinese and Russian nuclear capabilities for many years without a perceived need for strategic defenses. Their defense budget is currently tight, particularly for procurement. The fluid state of their domestic politics complicates the search for a consensus in support of such capabilities. And our own past debates about strategic defenses suggest that some Asians will regard Japan's acquisition of defensive systems as augmenting its future offensive potential.

There may also be opportunities for further sharing of defense responsibilities in protecting the sea lanes in the western Pacific. But Japan already shares these burdens through its surveillance and patrolling between Tokyo and the Bashi Channel, north of the Philippines. I doubt the advisability of pressing Japan to extend the geographic scope of its involvement in such activities—particularly outside the framework of a multilateral naval task force. For one thing, in the absence of provocation, such a venture is unlikely to get off the ground. If such provocations occur, the ASEAN Regional Forum would provide an appropriate arena in which to discuss ways to augment the role of the Seventh Fleet by contributions from others, including Japan.

Perhaps the most delicate task in managing the alliance relates to China. China's rapid economic growth offers opportunities as well as challenges. It is an engine of growth in East Asia. But its military potential has also captured the attention of its neighbors. And uncertainties as to how it will utilize the power it is accumulating undoubtedly account to some degree for renewed Japanese interest in sustaining the alliance with the United States. Since Russian military power has atrophied in recent years, the Sino-Japanese-U.S. triangle will decisively shape the Asian balance of forces. The nature of our relations with Tokyo and Beijing will have a major bearing on the way they deal with each other. Steady U.S. diplomacy can reduce the likelihood of either Sino-Japanese strategic rivalry or a Sino-Japanese entente in Asia. Without our active involvement in the region, Beijing and Tokyo will be more likely to increase their military spending and pursue national ambitions that could provoke new sources of instability in the neighborhood. Japanese defense capabilities linked to the United States generate fewer apprehensions among the Chinese than do independent Japanese capabilities. And without the alliance, Japan would probably regard its current level of military capabilities as imprudently modest.

The existence of acute tensions in Sino-American relations could tempt Japan to keep the United States at arm's length, if not to capitalize on those differences, at least to avoid having its own relations with Beijing adversely affected by appearing to follow the USA's lead too closely. Intense friction between Washington and Tokyo would further erode Beijing's respect for our judgment and invite it to exploit Japanese-American differences. And while our alliance with Japan may encourage the continued moderation of Beijing's external policy, any U.S. effort to confront China on the Asian continent or in the Taiwan Straits without clear Chinese provocation would jeopardize U.S.-Japan cooperation and alienate other leading Asian nations. Our interests require that we play this triangular game. Playing it effectively will demand more attentiveness and hard-headedness than we have exhibited in the recent past. But the main point is this: we are better positioned to play the game with the alliance than without it.

Reshaping the Political Relationship

Political bonds between Tokyo and Washington are somewhat fragile. The mutual confidence and personal friendship that marked the Ron-Yasu (Reagan-Nakasone), George-Toshiki (Bush-Kaifu), and George-Kiichi (Bush-Miyazawa) relationships are not visible features of the current relationships between our political leaders. (Indeed, senior officials in Washington reportedly sought to condition a 1995 visit to the United States by Prime Minister Murayama on prior assurances of a significant Japanese contribution to the Korean Energy Development Organization.) The extensive turnover in the U.S. Congress and Japanese Diet in recent elections has taken its toll on trans-Pacific ties between legislative leaders. Prolonged guerrilla warfare on trade issues has left a legacy of mistrust between our bureaucracies. Recent incidents related to commemorations of the fiftieth anniversary of V-J Day exposed the sharply diverging perspectives with which our peoples recall that conflict. Within the U.S. government, the locus of much of the policy making with respect to Japan has shifted from agencies interested in collaboration with Tokyo to those (e.g., the U.S. trade representative's office and the National Economic Council) preoccupied with our competitiveness vis-à-vis Japan. And the new generation of bureaucrats coming of age in Japan seems more keenly interested in Asia than in the United States. These problems should not be

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overstated, for cooperation on many issues remains routine. But the unmistakable erosion of mutual trust between our leaders and the decline in public support for the relationship among our peoples is genuinely troubling.

Perhaps we should also reconcile ourselves to more realistic expectations for the relationship. In some respects, U.S. relations with Japan parallel our links with France. Each country has a proud tradition of self-reliance. Each harbors ambitions for regional leadership, though France is driven by a quest for grandeur while Tokyo principally covets respect and status. Neither Paris nor Tokyo can dispel anxieties about a powerful neighbor with whom it cultivates close ties. Both acknowledge the value of the United States' presence in preserving a regional equilibrium, and both cling to mercantilist trading practices. Of course, there are obvious differences as well—most notably, Japan's reluctance to establish its strategic independence, its preference for low-profile diplomacy, and the ambiguity of many of its public pronouncements.

Washington has long since become accustomed to the independence of French diplomatic efforts. It accommodated, though it did not welcome, France's arm's-length relationship to NATO. Yet our bilateral relationship with Paris has survived and periodically flourished. With Japan, we can no longer anticipate the degree of diplomatic compliance Tokyo exhibited during the cold war. Nor can the Japanese expect Washington to extend an open-ended security guarantee in the absence of a more reciprocal trading relationship. Though we have our share of disagreements with the French, rarely are these cause for widespread speculation about the demise of our entire relationship. With Japan, too, we should strive for agreement where our interests permit, while learning to accept occasional disagreements without assuming they automatically place the relationship as a whole in jeopardy.

Yet we must also strive to improve the political relationship with Tokyo. In that regard a number of suggestions have surfaced. One hardy perennial is the suggestion that we improve our consultative process. Unquestionably, we could develop even more elaborate arrangements for U.S.-Japan consultations. But the problem is not the channels but what is transmitted through them. The difficulties are primarily substantive rather than procedural.

Others suggest greater emphasis on our common agenda. Certainly, it is appropriate to search for major regional and global problems on

which our interests converge and to publicize more widely the successes of our collaboration on them. There is already a rich agenda for such cooperation on matters ranging from the environment to joint scientific and technological projects; from supporting AIDS research to financing population control efforts in developing countries; from stamping out narcotics trafficking to putting terrorist groups out of business. These are worthy causes deserving of support. But most such cooperative activities can best be organized on a multilateral basis, and they are consequently unlikely to serve as the focal point for reinvigorating our bilateral relationship.

It is more crucial that we accord priority to the most significant problems. Only parallel efforts by Washington and Tokyo are likely to succeed in dissuading North Korea from its quest for nuclear weapons, to cope with the consequences of Korea's future unification, or to buy the time and preserve the flexibility in Taipei and Beijing necessary for a peaceful resolution of the Taiwan issue. If we pursue divergent courses of action toward Korea, China, or the Taiwan issue, the adverse consequences will be felt throughout our relationship, and our alliance is unlikely to survive.

We might rely more heavily on multilateral fora for policy coordination. As APEC acquires weight in the calculations of key Asia/Pacific powers, we should utilize this forum more in tackling some of the prominent trade issues on our bilateral agenda. Our proposals for economic deregulation will count for more in Tokyo if we weigh in alongside other Japanese trading partners. We have already begun to handle many consultations regarding North Korea on a trilateral basis with Seoul and Tokyo. To the extent possible, Beijing should be drawn into these discussions. Indeed, there is much to be said for regularizing discussions about Northeast Asian problems among the two Koreas, the United States, Japan, China, and Russia, and some steps have already been taken in that direction.

Most important, we should explore a new understanding of the broad trade-offs that underpin our relationship. The basic bargain that underlay the links between Washington and Tokyo for a generation is no longer viable. Japan is too large an economic force in the world to expect our indulgence of the many hidden barriers to its market. And Japan is too proud and too powerful to be expected merely to follow Washington's policy direction. Whether a new understanding can be

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struck is unclear. President Bush and President Clinton have tried. The results are not yet satisfactory.

From an American standpoint, the general contours of the trade-off are reasonably clear. We need Japan's help in defining and defending reasonable multilateral rules for managing an unruly and dynamic international system. We need a rough equality of opportunity in Japan's markets akin to what we give them in ours. And we need Japan's collaboration in order to forge regional cooperation within a trans-Pacific rather than a Pan-Asian framework. Japan, meanwhile, needs Washington's attentiveness to its interests and views and respect for its independence. It needs our continued cooperation on security matters if central features of its own defense policy (specifically, the three noes—no nuclear weapons, no arms exports, and no major military power projection capabilities) are to survive. And Japan wants acknowledgment of its major power status in the United Nations Security Council. This is a reasonable agenda that offers major benefits to both countries. It remains to be seen whether both governments can muster the political will to assure its realization.

We must devote special efforts to reconciling our respective ambitions in Asia. We have long urged Japan to assume a more ambitious regional and global role. There is no reason to regard a larger and more active Japanese presence in Asia as a threat. But if we are to participate fully in Asia's growing prosperity, we must also look out for our own equities in the region. If we effectively terminate our economic assistance programs in Asia, we cannot expect to compensate by seeking a larger share of supply contracts under Japan's official development assistance program. We cannot badger Asian governments on every political issue that comes along and then complain when public procurement contracts for telecommunications, energy, and transportation infrastructure projects go to Japanese competitors. We cannot expect to keep up with the presence Japan is establishing with its massive foreign direct investment in the Asian market merely by increasing the volume of U.S. portfolio investment in the region. (After the Mexican experience, many developing countries—including some in Asia—are leery of such hot money.) And we cannot hope to shape APEC's institutions in directions congenial to U.S. interests without a steady engagement in the process of building a regional consensus regarding APEC's role and without displaying greater sensitivity to Asian methods of nurturing such a consensus.

Asians are not unhappy to see a healthy measure of competition between the United States and Japan, particularly on economic and commercial issues. It enhances their ability to maneuver between us. Yet on the fundamentals, cooperation between Tokyo and Washington is crucial if regional initiatives are to flourish. In this connection, we should redirect our energies toward determining the common goods needed to build a Pacific Community and working on an equitable arrangement for providing them.

If we fail to overcome the current malaise in our bilateral relationship with Japan, we will find it difficult to muster the cooperation necessary to meet a variety of regional and global challenges. Yet only if we can elevate our concerns beyond current trade disputes will we be able to temper the nationalistic excesses that our economic competition increasingly breeds. It is essential that our political leaders remind themselves and their constituents of the immense benefits U.S.-Japanese cooperation brings to both our peoples. And they must invest the time and effort needed for managing this relationship, which its importance demands. It is high time we cease hurling accusations and recriminations back and forth across the Pacific, roll up our sleeves, and get back to work. That is the best way of assuring that long-standing allies remain firm friends and that commercial competition does not breed geopolitical rivalry.