Japan and the
Unites States
Reconsidered:
Evolution of Security and
Economic Choices since 1960

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Preface

Most studies about post-1960 U.S.-Japan relations have viewed the relationship through the prism of parochial American priorities and initiatives – for example, attributing Japan’s success to American benevolence in providing unfettered market access to U.S. consumers while relieving Japan from the burden of building a robust national military force. Moreover, the dominant conventional voices in U.S.-Japan relations, including American and Japanese academics, former military/defense practitioners and strategists, corporate representatives, policy intellectuals, as well as diplomats, tend to discount the possibility that Japan did rather well in exploiting American strategic needs in order to optimize Japan’s own interests. Japan’s unique position as both an American protectorate and a sovereign nation state that maximizes self interest has received scant attention.

The important question of whether, and to what degree, the United States traded American economic interests in exchange for security cooperation from Japan has generated considerable debate. Some research groups have recently claimed that there is no evidence of such trade-offs; however, even the long-term public record, not to mention recently declassified materials, reveals that, because of the strategic significance Japan held for the United States during the Vietnam War, the Nixon administration did not aggressively enforce antidumping findings against Japan when it was found to be dumping televisions into the U.S. market in the late 1960s. Furthermore, during the 1970s and 1980s, when Japanese and U.S. interests diverged over policies toward China, the Middle East, and even relations with the Soviet Union, the two nations were compelled to consider such trade-offs in order to advance their respective economic and/or security interests.

Regarding the important issue of access to Japanese source material and documents, it would have been desirable if Japan had provided public access equivalent to that of the U.S. Freedom of Information Act. In light of this unequal access to materials, the strategy of this project was to: (1) attempt a more systematic review of Japanese language documents that are publicly available in various archives; (2) access the Oral History Archive commissioned by the National Security Archive’s U.S.-Japan Special Documentation Project; and (3) amend the oral history information with the expertise of journalists and others who were close to Japan’s policymaking apparatus.
We convened a Working Group of leading Japan scholars, former
government officials, and journalists who have covered U.S.-Japan
relations. These prominent public policy intellectuals were commissioned to
write papers surveying recently declassified materials and addressing the
question of trade-offs between security and economic concerns in the U.S.-
Japan relationship.

On October 23 and 24, 2001, a one-and-a-half-day conference was
organized in Washington, D.C. with featured speakers Congressman Sander
Levin, Ambassador Thomas Foley, and Congressman James Leach. The
authors presented their analyses, after which panelists discussed Japan’s
major economic and security policy choices from 1960 to the present. In
addition to the paper authors and aforementioned speakers, we would like
to recognize the policy contributions made by other participants at that
meeting, including William Breer, Jean Heilman Grier, Michael Green,
Richard Katz, Bob Perkins, Bruce Stokes, Nathaniel Thayer, Toru
Takanarita, Ira Wolf, Eric Gangloff and Richard Samuels.

The contributors to this volume seek to analyze the evolution of
U.S.-Japan economic and security policies since 1960 from a largely
neglected perspective — namely, examining several decades of partnership
through a Japanese lens rather than in terms of America’s strategic and
economic objectives. Secondly, the contributors offer assessments of the
extent to which Japan and the United States challenged each other to make
trade-offs in their security or economic arrangements so as to advance each
nation’s respective interests. Finally, these papers, on the whole, utilize new
empirical evidence from the National Archives to investigate the nature and
scale of trade-offs the United States made on the economic front in order
to secure its security objectives vis-à-vis Japan.

In this volume, historian Michael Schaller provides an overview of
Sugawa examines Japan’s search for an “independent” security policy via
the jishuboei movement of the late 1960s and early 1970s led by Yasuhiro
Nakasone, who served as Director General of the Japan Defense Agency
from January 1970 to July 1971. Koji Murata argues that Japan’s defense
policy shifted from “autonomous defense” to “defense cooperation” with
the United States in the 1970s as a response to numerous international
shocks, including the so-called “Nixon shocks” and President Carter’s
ambition to withdraw U.S. forces from South Korea. Marie Anchordoguy
examines how Japanese leaders maximized Japanese industrial interests at
the expense of those of the United States. Furthermore, she studies how
America’s strategy during the “trade war era,” which was initially ineffective,
eventually became more sophisticated in the case of the semiconductor
industry. Edward Lincoln argues that the bilateral automobile negotiations, which concluded in 1995, symbolized a major shift, in which Japan demonstrated significant willingness to oppose U.S. initiatives openly. Alan Wolff argues that the U.S.-Japan relationship has matured significantly and that Japan, despite its political and economic troubles, has taken actions that make it easier to get along with the United States. Chalmers Johnson argues that American hegemony in East Asia, particularly its continued dominance after the end of the Cold War, have warped and distorted the design and nature of Asia’s developmental states, particularly Japan and South Korea, to satisfy the needs of superpower competition that today has become irrelevant.

We would like to thank Robert Wampler for access to the U.S.-Japan project at the National Security Archive, as well as Herbert Bix, author of the Pulitzer Prize-winning Hirohito and the Making of Modern Japan, for his counsel and for demonstrating the value of returning to and carefully mining the empirical record to draw better informed conclusions about the past, so as better to direct contemporary and future policy choices.

Finally, without the generous institutional and personal support from the Japan-U.S. Friendship Commission and its director, Eric Gangloff, as well as his Assistant Director Margaret Mihori, this project would not have been possible. We would like to stress our greatest appreciation to the Commission for its vision and for enabling us to pursue such an interesting and policy-relevant project. We very much hope that this set of papers will become an important asset to those who are inspired and motivated to look at the empirical record, much of which lies untouched in the archives in Japan and the United States, so as better to inform future policy choices.

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"We have got to get Japan back into, I am afraid, the old Co-Prosperity Sphere."
(Diplomat Philip Taylor to George Kennan, 1949)

"The Japanese are all over Asia, like a bunch oflice."
(President Richard Nixon to British Prime Minister Edward Heath, 1971)

For the decade beginning in 1938, United States policy in Asia focused on assisting Nationalist China against Japan. President Roosevelt and his key aides believed that American security in the Asia/Pacific region depended upon creation of a strong, pro-American China along with a reformed and greatly weakened Japan. In the first years of the Japanese Occupation, Americans carried out a so-called “controlled revolution” focused on destroying the power of the military and its industrial allies, the zaibatsu.

By 1947, however, U.S. policymakers reversed course in Japan. Alarmed by the deterioration of relations with the Soviet Union, the civil war in China, and the failure of European and Japanese economies to recover, key actors in the Truman administration – such as Navy Secretary James Forrestal, Undersecretary of State Dean Acheson, Policy Planning Staff Director George F. Kennan, Secretary of War Robert Patterson, Army Secretary Kenneth Royall, Undersecretary of the Army William Draper, as well as former ambassador to Moscow Averell Harriman and former President Herbert Hoover – took the lead in assuring, as Forrestal put it, that the United States would “have a run for our side in the competition with the Soviet Union.” ¹

These officials complained that Occupation Commander, General Douglas MacArthur, as part of his effort to run for president in 1948, pursued dangerous policies of democratization, demilitarization, and economic deconcentration. His “socialization attack,” as Kennan called it, had pushed Japan toward “economic disaster” and anarchy, “just what the Communists want.” Containing Communism, Forrestal argued, required putting “Japan, Germany, and the other affiliates of the Axis back to work.” Security in Europe depended upon the “revival of German industry” and everything said about Europe and Germany “applied with equal force to Japan.”

These shapers of America’s new Japan policy worried that the loss of European and Japanese colonies after 1945, colonial rebellions in Southeast Asia, and the civil war in China made it especially difficult for Western Europe and Japan to acquire inexpensive raw materials, restore their production, and export manufactured goods. As they ran out of scarce dollars and raw materials, these key economies would face threats of social disorder and might seek an accommodation with the Soviet Union (or, later, Communist China). This shift in potential economic power, rather than a Soviet or Chinese military assault, worried leading U.S. officials in the late 1940s and 1950s. As John Foster Dulles, the diplomat who negotiated the peace and security treaties with Japan in 1951 and went on to become secretary of State, later put it, “unless Japan works for us, it will work for the other side.”

More than any other factor, this concern drove a series of decisions during 1947-48 to promote the Marshall Plan and related recovery programs. As Dean Acheson declared in a speech in May 1947 that foreshadowed George Marshall’s proposals a month later, “the greatest threat to peace” stemmed from the “grim fact of life” that the “greatest workshops of Europe and Asia, Germany and Japan,” remained idle. World stability required rebuilding the “two workshops” on which the “ultimate recovery of the two continents so largely depends.” Privately, Forrestal told President Harry Truman that the survival of the free world required giving priority to rebuilding Germany and Japan, “the two countries we have just destroyed.”

For twenty years following the decision to “reverse course” and promote Japanese recovery, U.S. policymakers in the Truman, Eisenhower, Kennedy, and Johnson administrations were wracked by fear that an economically weak and politically unstable Japan, not bound by any true ideological ties to the West, might drift toward neutralism or, worse, an accommodation with the Communist bloc. Throughout this period, U.S. policy relied upon two military and one economic pillar of containment in
Asia: isolation of the People’s Republic of China (PRC), defense of a non-communist Vietnam and Southeast Asia, and acceptance of high levels of Japanese exports regardless of their impact on U.S. producers. A breach in any one of these policies, policymakers feared, might prompt Japan to slip its American tether.

But Containment in Asia had (and still partly retains) a double edge: to protect Japan from Communist threats and to protect the United States and its other Asian allies from the possibility of threats from a fully independent Japan. The so-called Father of Containment, George Kennan, made this point explicit in 1949. Kennan, who played nearly as large a role in shaping the “reverse course” in Japan as he had in altering German policy, noted the challenge presented by the creation of the PRC in 1949. He told a panel of government and private Asia specialists that, although he did not anticipate Chinese military aggression against Japan, with China being Communist, “you have this terrific problem” of how the Japanese would get along economically “unless they again re-open some sort of empire to the South.” The only solution, opined occupation veteran Philip Taylor, was for the United States to “get Japan back into, I am afraid, the old Co-prosperity Sphere.”

In Kennan’s view, a Japan rendered both prosperous and dependent would best serve American purposes. In the long run, Washington must impose controls “foolproof enough and cleverly enough exercised to have power over what Japan imports in the way of oil and other things.” Such controls, Kennan believed, would give the United States “veto power” over Tokyo.

Two decades later, the recovery and trade policies adopted in the late 1940s and 1950s had succeeded beyond anyone’s expectations. By 1969, Japan had enjoyed more than a decade of ten-percent-or-higher annual growth rates. Its trade surplus with the United States became a chronic political and economic problem. As the U.S. economy suffered from the early symptoms of “stagflation” (low growth plus rising prices), Americans brooded that Japan enjoyed the world’s fastest-growing economy while the United States was left with the war in Vietnam.

In addition to problems caused by a growing imbalance of trade, the long-standing political bond between Washington and Tokyo frayed during the early 1970s. President Richard Nixon condemned Japanese Prime Minister Sato for not implementing a promise to reduce textile exports to the United States. Muttering to aides about “Jap betrayals,” he told British Prime Minister Sir Edward Heath that the Japanese were “all over Asia, like a bunch of lice.” The president later boasted that the so-called Nixon shocks (the opening to China, halting dollar-gold
convertibility, and forcing up the value of the Yen) were weapons “to stick it to Japan.”

By the time Nixon traveled to China in February 1972, he told Mao Zedong and Zhou Enlai that, instead of criticizing the U.S. security treaty with Japan, the PRC should celebrate it. According to Nixon, the U.S.-Japan military alliance prevented Japan from developing nuclear weapons and from "reaching out into Korea, or Taiwan, or China." If "we didn't have a treaty" he asserted, "our remonstrations would be like 'empty cannon' and the 'wild horse' [of Japan] would not be controlled."

Nixon spoke at a time when the United States faced an economic crisis brought on, in part, by the cumulative costs of Containment in Asia and elsewhere. Like many Americans, Nixon accused Japan of ingratitude and of sabotaging the U.S. economy through unfair trade practices. Reversing their firmly held beliefs of 1947-1969, American opinion leaders, in and out of government, spent the next two decades publicly wringing their hands over fear that the Japanese economic superpower would soon wrest world leadership from the United States.

During the 1950s and 1960s, U.S. policymakers justified granting Japan favored access to American markets because it was deemed weak and unstable. By the 1980s, policymakers maintained this trade pattern because a rich and powerful Japan was seen as a key ally in financing America’s costly struggle to spend the Soviet Union into oblivion. U.S. policy appeared driven by alternating perceptions that Japan was either three feet or ten feet tall.

Forging an Alliance

Fifty years after the signing of the Japanese Peace Treaty and the U.S.-Japan Security Treaty in September 1951, both pacts remain remarkably durable pillars of a Pacific alliance. They not only helped steer the United States and Japan through the most difficult years of the Cold War in Asia, but also proved flexible enough to outlast the ideological struggle that nurtured them. This durability is especially noteworthy since Asia’s two largest nations, China and the Soviet Union, were not parties to the peace treaty and, in fact, were the “threats” the security pact guarded against.

Between 1949 and the early 1970s, conflicting notions of whether, and how, to contain the People’s Republic of China, through economic and diplomatic engagement or isolation, proved one of the most contentious issues between the Pacific allies. The China question, along with disputes over the U.S. military presence in Japan and, later, the Vietnam War, proved the most vexing issues between Washington and Tokyo. For twenty years after
the creation of the People's Republic of China, successive American presidents pressured Japanese leaders to minimize contact with what they called Red China, to enhance Japan's military power, and to support more actively U.S. military efforts in Southeast Asia.

On the eve of the Chinese Communist victory in 1949, Japan's blunt-speaking Prime Minister, Yoshida Shigeru, stunned U.S. occupation officials by remarking that he anticipated "without any anxiety the possibility of a total seizure of China by the Communists." The restoration of order in China, he suggested, would create a barrier to Soviet expansion and provide Japan with a trading partner. Whether China was "red or green," Yoshida quipped, it was a "natural market and it has become necessary for Japan to think about markets." Foreign Trade Minister Inagaki Heitaro predicted that, within a few years, Japan might conduct as much as a third of its external trade with China. Yoshida and his business allies, an American diplomat remarked, had confidence in their "gambling...skills in pursuing an independent" policy toward the new China.

Although "battle lines" between the People's Republic of China and the United States did not become rigid until after China intervened in the Korean War, American discomfort over Yoshida's comments revealed an important fault line between the nascent Pacific allies. Divergent perceptions of China and its possible threat to Southeast Asia strained relations between Tokyo and Washington more consistently than any other issue. Yet, in spite of this tension, the Japanese-American alliance and the two treaties that codified it have endured longer (thirty years) since the "end" of the Cold War in Asia in 1971-72 than the twenty years from their inception to that date.

The Japanese-American alliance emerged rather improbably from both the bitter results of the Pacific War and six years of nominally Allied, but de facto American, occupation. Although President Franklin D. Roosevelt had presumed that Nationalist China would play a pivotal role as the pro-American "policeman" of postwar Asia, China's civil war and the U.S.-Soviet confrontation altered expectations after 1945.

By 1947, policymakers in Washington had fundamentally shifted their perspective. Adopting concepts proposed by the State Department's leading Soviet expert, George F. Kennan, several of President Harry S. Truman's key advisers argued for making the economic recovery of western Germany and Japan a priority. In May 1947, Acheson announced a new policy toward Germany and Japan, declaring that global peace and prosperity could not be achieved given the "grim fact of life" that the "greatest workshops of Europe and Asia, Germany and Japan," remained idle. American occupation forces
would remain in place until the “two workshops” were economically revived and politically stable.

As Kennan’s staff remarked in 1947 – in rejecting what they saw as Occupation Commander Douglas MacArthur’s politically motivated call for an early peace treaty – the “radically changed world situation” required that Japan be made “internally stable,” more “amenable to American leadership,” and “industrially revived” in order to ensure the stability of “non-communist Asia.” Stalin’s conduct and the likelihood of a communist victory in China, the Policy Planners added, precluded a neutral Japan. Instead, what they called “Hirohito’s islands” should be made a “buffer state” against Soviet influence. This would require efforts to “crank-up” the Japanese economy and, eventually, to bind Japan to the United States through both a peace and defense pact.

Between 1948 and the summer of 1950, the United States funded an economic development program in Japan that set the stage for industrial recovery. Among other things, Occupation authorities ended serious efforts to break the grip of the zaitaku, halted the transfer of industrial reparations to Japan’s wartime victims, and constrained the power of left-leaning labor unions, especially in the public sector. The so-called Dodge plan instituted an economic program to promote export production by giving designated industries favored access to credit and raw materials.

This so-called Reverse Course encouraged modest economic growth while undermining the influence of Socialists in both the labor movement and national politics. However, on the eve of the Korean War, the Japanese economy continued to suffer from high rates of unemployment, raw material and credit shortages, and few customers for its exports. American civilian and military planners continued to disagree forcefully over the terms and timing of a peace treaty with Japan, especially in light of the Communist victory in China.

Before the Korean war, the State Department downplayed the military threat posed to Japan by the Soviet Union or the People’s Republic of China (PRC). Rather, they worried that Mao’s victory might undermine Japan by jeopardizing its access to raw materials and markets in Asia. The PRC, Americans feared, might use trade as a lure to blackmail Japan into neutrality or, worse, cooperation with the communist bloc. To reduce this risk, finding alternative trading areas for Japan, either in Asia or the West, emerged as American priorities.

In 1949, President Harry Truman approved a China trade policy reflecting Secretary of State Acheson’s view that a total embargo on the PRC would both hurt Japan and drive China closer to the Soviet Union. Acheson persuaded Truman to support a policy of “calculated risk” permitting
regulated Western and Japanese trade with China so long as “every effort” was made to “develop alternative resources” for Japan, particularly in Southeast Asia. In January 1950, Acheson told a Senate committee that he expected the newly created PRC eventually to break with its Soviet patron. Instead of wasting American resources fighting China or defending the Kuomintang regime on Taiwan, Washington should shift its “center of interest” in Asia to a “crescent or semicircle which goes around Japan at one end and India at the other.” To prevent Japan from becoming either a “pensioner of the United States” or a tool of China, Washington should encourage expanded Japanese trade within this “strategic crescent” and permit limited trade between Tokyo and Beijing.

Nevertheless, from 1949 until well into the 1960s, American policymakers worried that Japan’s economic vulnerability might make it hostage to communist blackmail designed to gain control of Japan’s industry without resorting to war. By 1950, the State Department concluded that the Occupation was paying diminishing political returns and the time had arrived to conclude a peace treaty with Japan. As Acheson put it, restiveness among the Japanese tired of American control might make them “easy prey to commie ideologies.” To assure Japan’s future viability and allegiance, civilian planners insisted, Washington must continue a generous import policy, allow regulated trade with China, and promote development in Southeast Asia. In 1947-48, Japanese officials hinted that the United States could lease military facilities on Okinawa and the Bonin islands as part of a deal ending the Occupation. In the spring of 1950, Prime Minister Yoshida had become so anxious to secure a peace treaty that, like Mao and the Soviet Union, he proposed “leaning to one side” in the Cold War. Yoshida’s aides told State Department officials that the prime minister would agree to “request” that U.S. forces be permanently stationed in Japan as part of a settlement. Yoshida realized that such an arrangement would probably cause the Soviets and Chinese to reject an American-authored treaty. Yet, he saw no other way to prod Washington into action. Yoshida also urged the United States to keep Taiwan and South Korea – former parts of Japan’s empire – out of communist control.

The Department of State’s chief treaty negotiator, John Foster Dulles, actually favored a non-punitive peace treaty – in line with Yoshida’s plan – that imposed few restrictions. It would be supplemented by a bilateral defense pact that offered Japan a measure of U.S. protection in return for providing base facilities for a small number of U.S. personnel. Civilian planners believed that Japan’s major contribution to the containment of communism would come from its economic productivity, political stability, and integration with Southeast Asia. Dulles proposed creation of a small Japanese defense force (in
the 100,000 man range but opposed the Pentagon’s talk of building what he called an “offensive” base network in Japan.

In 1949-50, the Joint Chiefs of Staff and Secretary of Defense Louis Johnson disagreed forcefully with Dulles and Secretary of State Acheson. Partly because the U.S. military harbored a lingering mistrust of its recent enemy, military planners emphasized Japan’s prime importance as a forward military platform for U.S. air, sea, and ground forces arrayed against China and the Soviet Union. In the “light of the debacle in China” and the “developing chaos on the Asiatic mainland,” the Joint Chiefs argued in 1949, the United States should “postpone a peace settlement” as long as possible and restore sovereignty only after Japan accepted permanent U.S. military bases as “staging areas from which to project military power to the Asiatic mainland and to the USSR.”

Despite months of internal negotiations, as of June 1950, the U.S. military establishment refused to budge. In their view, a peace treaty should be postponed indefinitely and agreed to only if, and when, Japan signed a military pact granting U.S. forces nearly free reign in post-occupation Japan.

The Korean War and the Peace Settlement

Key American officials interpreted North Korea’s June 25, 1950 attack on South Korea as directed ultimately against Japan. For example, Dulles commented during the first months of fighting that the “communist offensive in Korea was probably aimed at getting control over Japan, for had Korea been conquered Japan would have fallen without an open struggle.” The Korean fighting made it “more important, rather than less important” to conclude a peace treaty. If progress toward a peace treaty stalled “because of total preoccupation with the Korean war,” Dulles warned, “we may lose in Japan more than we can gain in Korea.” Also, unless Japan could be “assured a satisfactory livelihood” without placing it in a “position of dependence upon the communist dominated mainland of Asia,” any peace treaty would be a “failure.”

The Korean War proved a catalyst for both ending the occupation and promoting Japan’s economic recovery. It also created a political and economic dilemma, because, following China’s entry into the war, Washington imposed measures to isolate the PRC by erecting trade and diplomatic barriers between it and Japan. Once the Truman administration committed the United States to defending the Republic of Korea, Taiwan, and French Indochina, Japan also became the pivot of American military power in north and southeast Asia. After June 25, 1950, even Dulles acknowledged the Pentagon’s growing role in charting Japan’s future. He described his own task as trying to
get the military to endorse “in a form as inoffensive as possible to the Japanese” an arrangement giving the United States power to “place military forces wherever in Japan the United States may determine to be desirable.” As a prerequisite to a peace treaty, Dulles told Defense Secretary Johnson, the United States must henceforth have the “right to maintain in Japan as much force as we wanted, anywhere we wanted, for as long as we wanted.”

On September 8, 1950, the National Security Council agreed to a joint State-Defense plan that, as soon as the Korean situation stabilized, the State Department could negotiate (subject to Defense approval) peace and security treaties with Japan. The latter should provide virtually unrestricted base and operations rights to U.S. forces. It would not require the United States to defend Japan but would permit American troops to suppress riots or civil disorder within Japan if Tokyo requested. In July 1950, Gen. MacArthur took steps to implement what the NSC called Japan’s “right to self-defense” by ordering Yoshida to create a 75,000-man National Police Reserve.

During 1951, Dulles increased the pace of treaty negotiations with both the Japanese and American allies. The United States, he made clear, would draft a treaty that other nations would be invited to sign but not amend. Concerns voiced by the Philippines, New Zealand, and Australia about revived Japanese militarism were answered by an American promise to sign broadly worded defense pacts with each of them. When British diplomats expressed concerns about future Japanese competition in Southeast Asia, American negotiators told them to “face the realities of the situation and be prepared to meet Japanese competition if Japan is to be kept oriented toward the west.”

The emerging American concept of Japan’s new strategic role found expression in a feature run by Newsweek magazine in January 1951, just before Dulles traveled to Japan to open negotiations. The cover pictured a smiling, elegantly dressed Yoshida Shigeru standing beside a bouquet of chrysanthemums. Titled "Late Enemy Into Latest Ally?" the text stressed that, in the coming "world showdown," Japan must "cast its lot with the West, not the Communist East."

The report, probably written with Dulles’ aid, outlined the terms of the still-unwritten peace and security treaties. It praised Japan’s industrial prowess and social cohesion, traits that made the former enemy the "most formidable nation in the Far East." Two maps exemplified what Newsweek called the key issues. One depicted American air and naval forces operating from this "northern anchor" dominating China and Siberia. A second, superimposed on an outline of the former Co-Prosperrity Sphere, stressed Japan’s need to "look to Southeast Asia" as a replacement for the coal, iron, soybeans and other raw materials formerly imported from China. Until this
trade developed, Japan would remain dependent on American markets. The communist threat "nearly everywhere in Southeast Asia," Newsweek cautioned, required "something like an American-Japanese Alliance."

When Dulles arrived in Tokyo in January 1951 to discuss terms of a settlement, he spoke generously in public, describing Japan as a "party to be consulted," not a nation to be "dictated to by victors." In private, however, he told aides that the "principal question" to be answered was "do we get the right to station as many troops as we want and for as long as we want or do we not?"

As Dulles feared, U.S. military reversals in Korea following China’s intervention stiffened Yoshida’s attitude. The prime minister called for eliminating numerous Occupation-era liberal reforms and stressed Japan’s "long-standing necessity" for trade with China. He even suggested that Japanese businessmen in China could serve as a "fifth column for democracy," undermining communism. Dulles countered the argument by threatening tighter trade controls on Japan and suggested that Yoshida think in terms of creating a 300,000–man army that could make a defense contribution to the "free world." This, of course, was a thinly veiled call for using Japanese forces in Korea. The prime minister retorted that Japan’s most important contribution to containment should take the form of increased "military production," not ground forces.

It was clear in 1951 that the Americans saw a peace treaty as a worthy goal, but considered a security pact the foundation for future relations. It must provide extensive base facilities to U.S. forces, commit Japan to creating at least a small army, and take effect as soon as the Occupation ended. These obligations could not be met simply by expanding the National Police Reserve or boosting military production.

Most Japanese, in contrast, considered the restoration of national sovereignty a primary objective. To obtain it, they would swallow the bitter pill of a military pact that bound Japan to an anti-communist alliance and estranged Tokyo from China and the Soviet Union. Meanwhile, Japan would concentrate on economic recovery and use trade expansion as a form of foreign relations. Nearly the entire Japanese political spectrum resisted American pressure to rearm or actively confront China.

Although Dulles publicly pressed Japan to accept a greater military role in Asia, he privately acknowledged that the "principal problem" was "how is Japan going to get along economically?" In his talks with U.S. Occupation officials, Dulles worried over the fact that the United States would either have to carry Japan’s trade deficits for an "indefinite period" or be forced to "admit large quantities of Japanese goods" into the United States as a safety valve. With China trade at least temporarily blocked by
the Korean conflict, Dulles feared the consequences should “any one or all” of Japan’s other “Asiatic markets pass out of the picture.” Unless Japan “worked for us,” he predicted, “it will work for the other side.”

In February 1951, Dulles and Yoshida developed a framework for the peace and security pacts. A brief, non-punitive peace treaty would be coupled with a security pact that gave the U.S. military virtually unrestricted base rights to operate in and around Japan. The United States would honor Japanese “residual sovereignty” over Okinawa and the Bonin Islands, but retain control over them. The pact had no time limit and could only be amended by mutual agreement. Japan also pledged to assume “increasing responsibility for the defense of its homeland against direct and indirect aggression.”

The biggest hurdle Washington faced in enacting these treaties was the demand by Great Britain that the People’s Republic of China be invited to San Francisco. Dulles made some token concessions to British Prime Minister Clement Attlee, but rebuffed calls to invite China. To placate London, Dulles agreed that neither the PRC nor the American-recognized Taiwan regime be invited to the peace conference. Instead, Japan would be free to negotiate with either regime once the occupation ended.

In a ceremony held in San Francisco on September 8, 1951, Japan and forty-eight nations signed the treaty essentially as presented to them by the United States. Angered by Washington’s exclusion of China, the Soviet Union rejected the pact. In a private ceremony that same day, Yoshida and U.S. representatives signed a security treaty along with a subsidiary agreement that authorized U.S. forces to use bases in Japan for Korean operations. A few days before, the United States reached defense agreements with the Philippines, Australia, and New Zealand. The U.S.-Japan Security Treaty, along with the ANZUS Pact, the Southeast Asia Treaty Organization (SEATO, 1954) and related agreements with Taiwan and South Korea, formed the basis of the U.S. military presence in the Asia-Pacific region through the early 1970s. All were designed by Dulles to shield allies in North and Southeast Asia from China while isolating the People’s Republic.

Both American and Japanese negotiators considered the generous peace treaty a “sweetener” for the less equitable and more intrusive security treaty. The security pact, in turn, served as a fig leaf masking criticism of the far more controversial administrative agreement governing bases and the status of U.S. troops in Japan. Many of the provisions of this administrative agreement – which even Dulles compared to the “unequal treaties” imposed on Japan in the 19th century – were so unpopular that it
had to be adopted by executive agreement in February 1952 rather than by Diet or Senate ratification.

Besides their discomfort over the security treaty and its offshoot, many Japanese bitterly resented American pressure on Tokyo to deal exclusively with Taiwan. Even as staunch an anti-communist as Yoshida made no secret of his interest in developing a commercial and diplomatic relationship with the PRC. Responding to Diet inquiries in October 1951 just before ratification of the peace and security treaties, he declared that Japan eventually hoped to “conclude a peace treaty with China and the Soviet Union.” Meanwhile, Japan could trade with China and open a “commercial office in Shanghai.”

Hints by Yoshida and other influential Japanese of interest in trade and political contact with the PRC aroused the fury of Taiwan’s many friends in the U.S. Senate. Late in 1951, Senator William F. Knowland, Republican of California, gathered the signatures of fifty-two colleagues on a letter to Truman stating that they would consider it “adverse” to the security interests of the United States if Japan “considered the recognition” of Communist China or “negotiated a bi-lateral treaty” with the PRC.

Fearing a revolt in the Senate against the treaties with Japan, Dulles returned to Tokyo in December 1951 accompanied by three senators. There he told Japanese officials that Japan must follow a China policy “generally compatible” with the U.S. goal of defending the “offshore island chain” stretching from Japan to the Philippines, including Taiwan. To settle matters, Dulles ordered Yoshida to sign a letter he was handed. Addressed to Dulles, it declared that the Japanese government “is prepared as soon as legally possible” to conclude a treaty with the Republic of China on Taiwan. Japan, it stated, had “no intention to conclude a bilateral treaty with the Communist regime of China.” Although the so-called Yoshida letter infuriated the British, it assured Senate ratification of the peace and security pacts in March 1952. In April, once Yoshida signed a peace treaty with the Chinese Nationalist regime on Taiwan, the seven-year Occupation came to an end.

The implementation of the peace and security treaties in the spring of 1952 not only ended the occupation, but made Japan and Okinawa pivots of U.S. military power in Asia. Japan exchanged military bases for the restoration of sovereignty and privileged access to America’s vast consumer market. During most of the next half-century, U.S. military spending and its appetite for Japanese consumer goods served as twin engines of economic growth.

The giant shadow cast by China’s intervention in Korea affected both Japan’s economic prospects and its political relationship with the
United States. In December 1950, Gen. MacArthur suspended Japan’s small but growing trade with China. During 1951, a United Nations resolution imposed a trade embargo on China and North Korea. Congress also passed the Battle Act, which barred aid to any country violating U.S. export controls. Before the Occupation ended, U.S. authorities formulated a list of about 400 items Japan could not sell to China, a more stringent ban than that applied to Western sales to the Soviet Union. Shortly after restoration of sovereignty, Japan joined the American-sponsored Coordinating Committee for Export to Communist Areas (COCOM) and then took a seat on COCOM’s China Committee, CHINCOM.

In addition to these comprehensive control measures, in September 1952, the United States insisted that Japan sign a secret bilateral agreement that imposed limits on Japanese exports to China surpassing the COCOM/CHINCOM restrictions. Among all nations, only the United States, South Korea, and Taiwan – which barred all trade with China – imposed more stringent barriers. These measures reduced Japan’s 1952 trade with China to a tiny 0.04% of exports and 0.7% of imports. This contrasted to 1941, when Japan drew 17% of imports from, and sold 27% of exports to, China. Privately, American officials worried that, unless a substitute for China was soon found, the Japanese would be “tempted to seize the opportunities for closer economic and political relations with the communist bloc.”

In fact, from the time of the Korean armistice in July 1953, through 1971, Japanese discontent with U.S.-imposed restrictions on trade and diplomatic ties with China was a constant source of tension between Washington and Tokyo. As a senior U.S. diplomat in Tokyo noted in 1953, “with the exception of the problems arising from the presence in Japan of U.S. armed forces,” no “other single issue” affected bilateral relations so adversely. The Japanese saw “neither justice nor reason” in Washington's imposing on them greater limits than those imposed on “other allies.” Most business groups, political parties, and labor organizations, Bank of Japan Governor Ichimada Hisato told John Foster Dulles in August 1953, were determined to separate business and economics. They considered the trade embargo on China a mockery of Japanese sovereignty that contributed to a rising spirit of “anti-Americanism.”
Trade and Security Issues in the Eisenhower Administration

Japan’s desire to achieve full sovereignty found expression in its effort to expand trade and cultural contact with China in the years after the Korean war. British and Japanese determination to crack the American-imposed embargo eventually forced Washington to modify the system of trade controls with the Soviet bloc. This included scrapping the special restrictions on Sino-Japanese trade as well as the so-called China differential that prohibited American allies from selling to the PRC goods approved for export to the Soviet Union and Eastern Europe.

The Eisenhower Administration’s Asia policy relied upon several anti-Communist military pacts, a military commitment to South Vietnam, and expansion of trade with Japan. In addition, President Eisenhower and Secretary of State Dulles implemented an economic “wedge strategy” intended to fracture the Soviet–Chinese alliance. However, the wedge could have “hard” or “soft” edges. Officials such as Secretary of State John Foster Dulles and Joint Chiefs of Staff Chairman Admiral Arthur Radford favored stringent export controls designed to make China completely reliant on the U.S.S.R. The Soviet Union, they believed, would be unable or unwilling to meet China’s economic needs fully. Eventually, this would force China to its knees – and senses – and back into the Western fold. Proponents of a “soft” wedge, most notably President Eisenhower, argued that trade flexibility held a greater promise of inducing Beijing to cast off Moscow’s embrace. Eisenhower also considered the importance of allied concerns. If “all trade between the free world and the Soviet bloc is completely cut off,” he asked, “how much will the U.S. then do to help those free world countries that depend on trade, such as Japan?” Was Washington prepared to subsidize Tokyo or to risk its economic collapse? Imposing a total embargo on China “slammed the door in Japan’s face.” Access to China’s markets, the president insisted, “was indispensable to the livelihood of Japan.”

Dulles, like many American officials, considered Japan the “ultimate domino” threatened by Communism in Indochina. During his first week in office, the new secretary of state delivered a radio and television address in which he stressed the tie between Southeast Asia and Japan. The Communist powers, he asserted, “are making a drive to get Japan, not only through what they are doing in the northern areas of the islands and in Korea but also through what they are doing in Indochina. If they could get this peninsula of Indochina, Siam, Burma, Malaya, they
would have what is called the rice bowl of Asia.” At a Pentagon conference the next day, General Omar Bradley predicted that a French defeat in Indochina would “lead to the loss of all Southeast Asia.” That, Dulles added, “would lead to the loss of Japan.” With “China being Commie,” another defeat in Asia would not cause the immediate loss of Japan, but “from there on out the Japs would be thinking of how to get on the other side.” The loss of Southeast Asia, the Joint Chiefs of Staff agreed in a 1953 report, would bring such great “economic and political pressure on Japan” that Tokyo would be forced to “reach an accommodation with the Communist bloc.”

In spite of American disfavor, between 1952 and 1958, Japan concluded four “private sector” commercial agreements with China, using academics, business groups, labor union officials, and Diet members as negotiators. The nominally “private” status of the Japanese intermediaries allowed Tokyo to skirt U.S. prohibitions on official contact. These agreements generally involved the barter of Japanese manufactured products for Chinese food and raw materials. To placate Washington, Tokyo closely regulated the goods sold and the credit mechanisms utilized. Still, American officials complained that each of these deals moved Japan a bit closer to recognizing the PRC.

In many ways, Japan’s best friend in Washington was President Eisenhower. Unlike several of his reflexively anti-Communist advisers, he favored a three-track approach to Japan’s economic problems. In the long run, he viewed Southeast Asia as vital. In the interim, Japan must be allowed to export more to the United States and conduct some trade with China. Although he often failed to impose his view as policy, Eisenhower frequently told his Cabinet that all three approaches were required to keep Japan both prosperous and politically allied to the West.

Eisenhower tacitly supported British Prime Minister Winston Churchill’s demand in 1954 for a general relaxation of controls on exports to the Soviet bloc, even if it gave China access to forbidden goods. That same year, the president released Japan from the terms of the secret 1952 bilateral agreement that imposed restrictions on Sino-Japanese trade going beyond the already-high CHINCOM limits. Western European and Japanese trade with China were placed on the same level, even though trade barriers against China remained higher than those applied to the Soviet Union.

Speaking to legislators and newspaper editors in the summer of 1954, following the French defeat at Dienbienphu, Eisenhower chided conservatives in Congress who seemed set on “no trade with Red China, no [U.S. participation in] the war in Southeast Asia, and no further
liberalization of trade” between Japan and the United States. Without doing “some of these things,” he warned, “we would lose Japan” and turn the Pacific into a “communist lake.” Eisenhower could scarcely contain his contempt for politicians and business groups who had whipped up a campaign to exclude the import of Japanese-made women’s blouses. The president repeated his belief that protecting Southeast Asian resources and markets were vital to “keep Japan in our orbit.” While fearful of China’s intentions, Eisenhower acknowledged that “Japan could not remain in the free world unless something is done to allow her to make a living.” This required accepting more Japanese goods into the United States, defending Southeast Asia, and permitting regulated Sino-Japanese trade. No single approach, he admitted, would save Japan, and “any one of them pursued to an extreme would ruin us.” But without a flexible approach Japan’s war-making capacity might quickly fall under Communist control.

Even while the Eisenhower administration argued for expanding Japanese exports to the United States, Dulles cautioned Japanese officials not to expect a “big U.S. market.” Japan, he told Yoshida, did “not make the things we want” and should, instead, seek larger “export markets in Southeast Asia.” At one meeting in Tokyo, the secretary of state actually pulled out of his attaché case a “brightly patterned flannel shirt made in Japan of cheap material exactly copying a better quality cloth made in the United States.” The knock-off, he explained, would never appeal to Americans. Revealingly, Ambassador John Allison recalled the incident with a different twist. He described Dulles pulling out the shirt and shouting “this is what you people are doing to us...competing with us. You can’t do this after all we’ve done.”

During the following decades, American and Japanese officials ritually reenacted this exchange over a variety of increasingly sophisticated products, including ceramics, textiles, watches, cameras, steel, electronics, and automobiles. As in the 1950s, the administration first encouraged Japanese exports, then often negotiated “voluntary export restraints” in response to complaints by American manufacturers. For many, but not all, product lines, however, the flood of imports from Japan and other low-cost producers sounded the death knell for domestic production. But as Eisenhower implicitly argued in 1954, it was better for Japan to sell blouses in South Carolina than battleships in Beijing.

At the end of 1954, Yoshida finally lost control of the Diet. During the next two years, other conservative leaders, such as Hatoyama Ichiro, Shigemitsu Mamoru, and Ishibashi Tanzan jockeyed for power. Despite individual differences, they all favored a more independent foreign policy, backed negotiations with the Soviet Union for a peace treaty, flirted with
the idea of amending the constitution to permit rearmament, and wanted to revise the security pact with Washington. Although all were firm anti-Communists, they supported expanded trade, and perhaps diplomatic ties, with China as a key assertion of Japanese sovereignty.

Although Dulles and U.S. military officials had called for Japanese re-armament since 1950, and had long complained over Yoshida’s foot-dragging, they were equally uncomfortable with his successors’ calls for Japan to play a more assertive and independent role in East Asia. The U.S. government preferred a pliant, subordinate Japan – and even a disarmed Japan – to a truly independent, re-armed Japan that pursued independent policies toward the Soviet Union and China.

The nearly two-year effort by Prime Minister Hatoyama to sign a peace settlement with the Soviet Union and expand trade with China struck Dulles as a worrisome sign of incipient neutralism. While a more flexible Eisenhower suggested that Sino-Japanese trade would “result in an infiltration of democratic ideas” into China, the secretary of state feared that too much contact with either Moscow or Beijing would pull Japan toward neutrality or something worse. To dissuade Tokyo from signing a full peace treaty with the Soviets in which Japan gave up its claim to two of the small islands north of Hokkaido that the Soviets seized in August 1945, Dulles threatened to permanently sever Okinawa from Japanese control. This and other pressures blocked a full peace settlement with the Soviet Union.

The United States became even more concerned over the independent drift in Japanese foreign policy in December 1956 when Ishibashi Tanzan replaced Hatoyama. His selection as LDP leader came despite a vigorous effort by U.S. diplomats and intelligence officials in Tokyo to promote the candidacy of Kishi Nobusuke. As a strong advocate for expanding commercial and political contact with China, Ishibashi put American officials “on notice” that the “era of more or less automatic Japanese compliance with American wishes on China was over.” Only Ishibashi’s unexpected resignation in the spring of 1957, due ostensibly to bad health, averted an imminent collision course with the United States over Japan’s ties to China.

The new Prime Minister Kishi Nobusuke, despite his wartime service in the Tojo cabinet and postwar imprisonment as a suspected war criminal, proved a far more reliable American ally. Washington’s difficult experience with Hatoyama and Ishibashi convinced Eisenhower and Dulles to cultivate Kishi’s cooperation. During 1957, the United States finally eliminated the China differential and placed trade with the PRC on the same basis as that with the Soviet Union. This change in American policy
stemmed both from British pressure and efforts to bolster Kishi’s standing within Japan. Kishi gained the confidence of Eisenhower and Dulles by visiting U.S. allies in Asia, including Taiwan and Vietnam during 1957. Kishi also spurned the PRC’s effort to sign an official trade pact. Eisenhower felt sure enough of Kishi that he told the prime minister in 1957 that he accepted “Japan’s need to trade with Red China” in limited ways. Ironically, this hardly mattered. In 1958, Mao launched his Great Leap Forward mobilization campaign that stressed self-reliance rather than foreign trade. Also angered by Kishi’s pro-Taiwan stance, the PRC suspended trade with Japan.

Although Kishi appeared to be a loyal ally, by 1957-58, State Department Japan specialists worried over the growing electoral support for the Socialist Party, which called for recognition of China and the abrogation of the security treaty with the United States. To bolster Kishi’s grip on the LDP and to undermine Socialist appeals, the Eisenhower administration adopted a two-track policy decided during 1958. This included a public decision to renegotiate the security treaty and eliminate those aspects that most offended ordinary Japanese. In addition, Eisenhower and Dulles ordered the CIA to channel campaign funds to LDP factions and candidates sympathetic to U.S. policy goals in Asia. The United States also undertook to split the Socialist party by driving a wedge between its moderate and more Marxist elements. Efforts to influence Japanese political parties by providing covert campaign funds continued at least through the late 1960s.

Along with the China question, the presence of several hundred thousand American troops in Japan remained one of the most contentious issues between Tokyo and Washington. The special legal status granted these soldiers under the terms of the security treaty and administrative agreement proved especially grating. Several high-profile crimes committed by enlisted men badly eroded public confidence in the U.S. security umbrella. The influential American Ambassador in Tokyo, Douglas MacArthur II, convinced Dulles that the United States had reached a “turning point in Japan.” Unless it agreed to put its security relationship on the “same basis of equality as we treated other allies,” the Pacific alliance would gradually erode in an “atmosphere of acrimony and mounting hostility.” Failure to accommodate Japanese demands for treaty revision, the ambassador stressed, might bring the Socialists to power and would certainly push Japan “progressively into neutralism.” In 1958, MacArthur warned that, unless Washington move swiftly to accommodate the desire of most Japanese to remove nuclear weapons from their soil, reduce the
number of American troops and bases, and limit the geographical scope of a new security treaty, “we will lose our shirts.”

The treaty revisions negotiated during 1958-59 eliminated many of the most offensive aspects of the 1951 pact. The new text permitted either the United States or Japan to withdraw from the pact with a year’s notice. It placed foreign troops who committed crimes more directly under Japanese legal control. Washington promised to remove nuclear weapons from Japanese soil, although a secret protocol permitted their transit through Japan and reintroduction in an emergency. Under the new treaty, Japanese forces were only compelled to act in defense of Japanese territory, while Washington agreed to consult with Tokyo before deploying its Japan-based forces for operations elsewhere in Asia. The revised treaty passed the U.S. Senate with little dissent.

Although these changes put U.S. forces in Japan on nearly the same status as those deployed in Europe, the reaction among Japanese proved far more hostile than Kishi or Eisenhower expected. Within Japan, a broad coalition of Kishi’s opponents – in the LDP, in the labor movement, among college students as well as among Socialists – seized on opposition to the treaty as a way to embarrass and drive the prime minister from office. Because of his own close identification with Kishi, Ambassador MacArthur badly misled the Eisenhower administration by claiming that most Japanese supported the prime minister and that his, and the treaty’s, opponents were mostly Soviet and Chinese dupes. When Kishi labeled treaty opponents as tools of the Soviets and Chinese and resorted to questionable legal tactics to force a Diet vote on the treaty in May 1960, massive street demonstrations resulted. By June, growing unrest in Tokyo forced Eisenhower to cancel a long-planned visit, despite assurances from the prime minister and Amb. MacArthur that they could ensure security by mobilizing thousands of rightwing gangsters to suppress demonstrations. Kishi barely managed to push the treaty through the Diet but lost so much support within his own party and the nation that he left office immediately after the treaty came into affect.

In retrospect, it appears that much of the treaty opposition actually reflected discontent with Kishi’s general rightist legislative program rather than hostility toward the United States. Almost as soon as Kishi resigned on June 23, 1960, political tempers cooled. Ikeda Hayato, a disciple of Yoshida, formed a new conservative government with U.S. support. Abandoning Kishi’s efforts to strengthen the police and challenge political dissidents, Ikeda stressed economic growth and a doubling of national income as a way to mitigate political and class conflict. Rather quickly, Japan and the United States resumed close cooperation.
The New Frontier in Asia

In the aftermath of the political upheaval surrounding revision of the security treaty, the Kennedy administration hoped that a more politically and culturally sensitive ambassador, along with support for trade expansion, would create incentives for better U.S.–Japan relations. The appointment of Japan-born, Harvard East Asia specialist Edwin O. Reischauer as ambassador to Tokyo went a long way toward restoring what the scholar had called the “broken dialogue with Japan” and improving America’s image among Japanese intellectuals and moderate socialists.

Although the new administration continued the policy of using the CIA as a financial conduit to support the LDP, Kennedy strongly endorsed Ikeda’s “income doubling plan” as a way to undermine both the appeal of socialism in Japan and anti-American sentiment. To assist this goal, JFK and his chief trade adviser for Japan, George Ball, beat back efforts by the textile industry to impose import quotas. Increased levels of Japanese exports, Kennedy and Ball believed, would bind Japan more closely to the United States while allowing for the more efficient use of American capital now wasted in old technologies such as textile production. Early in 1961, Kennedy told a Japanese business delegation that he “recognized that Japan lived by trade” and he intended to boost, not impede, bilateral commerce. Kennedy stressed these points when he met Prime Minister Ikeda in the summer of 1961. In return for a commitment to resist protectionism, Ikeda pledged to follow the American lead in foreign affairs, including the effort to keep the PRC out of the United Nations.

Despite this pledge, shortly after Kennedy’s death in November 1963, a member of his National Security Council Staff remarked that, during the previous three years, there had been “only one important matter on which the United States and Japan did not see eye to eye – China.” In spite of American efforts to isolate the PRC, bonds of culture and hope of trade continued to pull Japan toward mainland Asia. According to NSC staffer James Thomson, the Japanese realized that “for better or worse Mainland China is going to be a few hundred miles away forever,” so Japan “must live with it as best it can.” Even Ikeda told Kennedy in 1961, “Japan historically and traditionally has had special relations with the Chinese,” and this would continue.

Anxiety over Tokyo’s attraction to Beijing remained a source of tension despite generally positive relations during the Kennedy administration. Although a few mid-level Kennedy advisers favored food sales, cultural exchanges, and perhaps adoption of a “two China” recognition formula, the president and Secretary of State Dean Rusk vetoed
these ideas forcefully. When Ambassador Reischauer told an audience in Tokyo that decisions on diplomatic ties and trade with China were completely up to the Japanese, he received a terse cable from Rusk that said “No, they aren’t.”

Although the Japanese government avoided direct defiance of Washington’s effort to isolate China, Tokyo continually skirted the limits. In the fall of 1962, for example, Ikeda spoke with a nominally private trade delegation about to visit Beijing. He explained that “my position compels me to keep my face directed toward the U.S. so you will represent my face toward China.” The group signed several deals with China that violated the spirit, if not the letter, of American trade restrictions.

Following China’s October 1962 border war with India, the Kennedy administration pressed Japan to join an American-led condemnation of Beijing. Instead, visiting U.S. officials discovered that most Japanese intensely resented India (which had refused to sign the 1951 peace treaty) and openly sympathized with China. Not even veiled threats to retaliate against Japanese exports got Tokyo to budge.

On December 3, 1962, Kennedy told a group of Japanese cabinet officials visiting the White House that “the major question facing us today is the growth of Communist forces in China, and how to contain Communist expansion in Asia.” He called on Japan to help “prevent Communist domination of Asia.” When Rusk made the same point to Foreign Minister Ohira Masayoshi, the minister responded that the outside world “should leave Communist China alone.” Rusk shouted back that Washington would “leave the Chinese Communists alone when the Chinese Communists leave others alone.”

During 1963-64, Washington criticized several Japanese projects to construct chemical and manufacturing plants in China. Before a showdown occurred, however, several developments intervened. In November 1964, Sato Eisaku replaced the ailing Ikeda as prime minister. Sato represented elements within the LDP that were less enthusiastic about trade with China. A few months after Sato took office, Mao launched the Cultural Revolution, which proclaimed, among other things, a doctrine of economic self-reliance and more strident opposition to the United States and the pro-American government of Japan. Finally, rising U.S. military expenditures related to the escalating war in Vietnam boosted Japanese sales to both Southeast Asia and the United States. These factors made trade with China a far less pressing issue.
The Vietnam War and the China Factor

In 1961, then Vice-President Lyndon B. Johnson returned from a tour of Southeast Asia to report to President Kennedy about the threat posed by China and regional communist insurgents. If Chinese-supported movements overran the region, he warned, the “island outposts – Philippines, Japan, Taiwan – have no security and the vast Pacific becomes a Red Sea.” This reiteration of the “domino theory” appeared to alarm American strategists far more than it concerned most Japanese.

Shortly after Kennedy’s death and Johnson’s assuming power, Secretary of State Dean Rusk visited Tokyo. He found Prime Minister Ikeda and Foreign Minister Ohira determined to resist Washington’s pressure for Japan to play a greater role in American-led efforts to isolate the PRC and defend Vietnam. When Ohira dismissed as “rather stiff” Rusk’s talk of a Chinese threat to overrun Asia, the American stated angrily that the United States could “pull out” of Southeast Asia today and still survive but “Asian countries will not survive.” Despite blunt calls for Japan to assist the U.S. war effort in Vietnam, Prime Minister Ikeda and even his more conservative successor, Sato, rebuffed American pressure. Virtually no segment of the Japanese population favored sending their own troops to Southeast Asia or providing military aid that might provoke Chinese retaliation. Under constant pressure from Washington to help South Vietnam, Tokyo offered token medical and humanitarian assistance. This eventually prompted Johnson to sneer that while bandages and radios were fine, “what I am interested in is bodies.” These, of course, he would not get.

Although Johnson’s top aides believed that the commitment to Vietnam would reassure Japan that America stood by its commitments, the war actually undermined relations between Tokyo and Washington. Most Japanese viewed the struggle as a proxy war between the United States and China. Many even felt empathy with North Vietnam, recalling both Japan’s own ordeal under American bombardment as well as the legacy of Japan’s wartime aggression against China and Southeast Asia. A vocal Japanese anti-war movement protested the use of American bases in Okinawa to supply the war effort and mount air attacks. Meanwhile, the Johnson administration frequently complained that communist sympathizers in the Japanese press distorted their accounts of the war to make North Vietnam appear the victim and America the aggressor.

Johnson and his advisers were especially irked that, while Japanese industry and workers profited handsomely from military orders (which coincided with Japan’s growing trade surplus with the United States), they
and their government refused to assume any of the war’s political or economic burdens. Between 1965 and 1972, Japanese industry earned around $1.5 billion annually from Vietnam-related spending by the U.S. government. Some of this came from orders placed directly in Japan, some from contracts let to Southeast Asian countries that subcontracted with Japan. American military spending in Southeast Asia spurred the type of regional economic integration with Japan that U.S. planners had talked about since the late 1940s. Also, with U.S. industry working at nearly full capacity because of military orders, Japanese exporters found new markets supplying American consumers.

As a result of these disagreements, by the time Johnson left office in 1969, Washington and Tokyo viewed each other with growing wariness. Japanese conservatives and leftists alike believed that an irrational American fear of China had led the United States to act recklessly in Vietnam and to risk drawing Japan into an unwanted war. Americans such as Johnson’s National Security Adviser Walt Rostow complained that the United States had kept an “arm around the Japanese and held an umbrella over them for a long time.” The time was long overdue for Japan to “contribute to Asian security.”

Defense Secretary Robert McNamara spoke even more bluntly to Prime Minister Sato during the latter’s visit to Washington in November 1967 to discuss the return of Okinawa. As Japan’s balance of payments surplus with the United States ballooned, the American public was becoming “unwilling to carry the burden themselves” of defending Asia. With the United States “spilling blood,” McNamara wanted to know why “Japan, India, and Western Europe did not believe it important to contribute” financially and militarily to the war effort in Vietnam. Japan, he told Sato, must work toward a “greater political and economic role and, ultimately, a military role in Asia.”

The Nixon Shocks and Japan

In July 1971, just days before the American and Japanese public learned that Henry Kissinger had traveled to Beijing and that Nixon would soon announce his plan to visit the PRC, the president confided his thoughts to chief of staff H.R. Haldeman. In politics, Nixon explained, “everything turns around.” The Chinese wanted to “deal with us” due to concern regarding the Soviets,” their former ally. He (Nixon) had “fought the battle for Chiang” on Taiwan since the 1950s and had always “taken the line that we stand by the South Koreans, the South Vietnamese, etc.” How
“ ironic” that a conservative like himself was the “one to move in the other direction.”

Sino-American cooperation, Nixon predicted, would “shatter old alignments.” The “pressure on Japan” might even “push it into an alliance with the Soviets.” Certainly, Moscow would attempt to redress the balance of power in Asia by “moving to Japan and India.” Nixon would need to “reassure” the Pacific allies that he was not selling out friends “behind their backs.” But Japan, Taiwan, and other Asian allies must understand that, while for two decades there was “validity in playing the free nations of Asia against China,” the United States could now “play a more effective role with China than without.”

Japan’s long-governing Liberal-Democratic leadership was stunned by the secretive and hostile way in which Nixon initiated his opening to China. Yet, in effect, he had adopted an approach to China that most Japanese had long favored. Nixon’s actions flowed from several factors that, since 1969, had altered the prevailing American view of China and Japan. The military stalemate in Vietnam following the February 1968 Tet Offensive convinced first President Johnson, then Nixon, that the United States could not achieve a military victory in Southeast Asia. Because Washington perceived the Vietnamese communist challenge as primarily a Chinese threat, it became imperative to devise alternative ways of containing the PRC. The growing strength of Soviet strategic forces also prompted the Nixon administration to seek new ways to control Moscow’s power. Finally, Japan’s rapidly expanding economy and growing trade surplus raised concerns among American policymakers, who saw the trade imbalance and the undervalued yen as a major threat to the dollar. In short, stalemate in Vietnam, Soviet strategic parity, and Japan’s economic growth combined to push U.S. policy in new directions.

The outbreak of Sino-Soviet border fighting along the Ussuri River during March 1969 provided the catalyst for policy change. After briefly weighing and rejecting a Soviet proposal to cooperate against China, Nixon and Kissinger resolved to “play the China card.” A diplomatic opening to China, they believed, would simultaneously speed a negotiated settlement of the Vietnam War, prevent a domestic backlash over the eventual “loss of Vietnam,” spur the Soviets to negotiate arms control measures and, not incidentally, put pressure on Japan to change its trade policies.

In a remarkable symmetry, Mao Zedong and Richard Nixon expressed nearly identical strategic visions in 1969-71. More convinced than most Americans that Nixon really intended to reduce U.S. forces in Vietnam and the entire Pacific region just as the Soviet threat peaked, Mao
told an aide that “we have the Soviet Union to the North and West, India to the South, and Japan to the East.” If all these enemies united, China could be overwhelmed. “Beyond Japan,” Mao added, is the United States. Didn’t our ancestors counsel negotiating with faraway countries while fighting with those that are near?” Several senior Chinese officials informed Mao that the best way to deter a Soviet attack was to play the “card of the United States” by opening a dialogue with Washington. Although it required nearly two years of negotiations via third parties before the United States and the PRC agreed on terms for a high-level visit to China, Chinese and American policymakers began fundamentally reassessing Asian policy long before the U.S. Ping-Pong team and National Security Adviser Henry Kissinger visited Beijing in the spring and summer of 1971.

In June 1971, when Nixon resolved to send Kissinger to China, he explained the decision using nearly the same logic as had Mao. Nixon told an aide that the Chinese, “faced by the Soviets on one side, a Soviet – backed India on the other, and a resurgent Japan that could develop [military power] fast because of its industrial base,” desired American help in offsetting these threats. Mao and Zhou still demanded that the “U.S. should get out of the Pacific,” but, Nixon surmised, they really “don’t want that.”

As the United States gradually reduced its military presence throughout the Pacific, the president predicted, Japan would “either go with the Soviets or rearm,” both dismal prospects as far as Washington and Beijing were concerned. It would take some effort but Nixon believed that he could prod Mao and Zhou into realizing that a continued U.S. military presence in the Pacific and the extension of the Mutual Defense Treaty with Tokyo was “China’s best hope for Jap restraint.”

During the 1969-71 period that witnessed the gestation of Sino-American Détente, U.S. relations with Japan seemed to exist on two almost-unconnected levels. For example, in November 1969, Nixon and Prime Minister Sato Eisaku resolved one of the most contentious issues between their two nations – reversion of Okinawa to Japanese control. In exchange for permitting the U.S. military to maintain an extensive base network on the Ryukyu Islands, Nixon agreed to return Okinawa to Japan by 1972. The president even pledged to remove nuclear weapons from the island, subject to the right to reintroduce them in an emergency.

The Okinawa deal finally terminated the postwar occupation of Japanese territory. Yet, even as both sides celebrated the agreement, powerful resentments developed. During the Nixon-Sato summit of 1969, the president asked for, and thought he received, a pledge from the prime
minister to get Japanese manufacturers “voluntarily” to reduce the quantity of synthetic textiles exported to the United States. Although these sales represented only a small part of the bilateral trade imbalance, they had great political importance to Nixon because he had received substantial campaign funds from U.S. textile producers in return for a promise to reduce imports. The president was also courting Southern politicians in whose districts a large number of textile mills were located. In spite of continued promises and a second Nixon-Sato meeting, the prime minister failed to implement textile restraints. Meanwhile, Japanese exports in all categories to the United States grew dramatically, prompting demands from Congress, labor unions, and manufacturers to retaliate against Japan’s allegedly unfair trade practices and its undervalued yen.

During the first half of 1971, Nixon’s aides, such as Commerce Secretary Maurice Stans and Treasury Secretary John Connally, described Japan as virtually an enemy state. Stans reportedly told TIME magazine that “the Japanese are still fighting the war, only now instead of a shooting war it is an economic war. Their immediate intention is to try to dominate the Pacific and then perhaps the world.” Connally boasted that his policy goal was to “screw” foreign trading partners before they “screwed us.” As U.S. gold reserves plummeted during the summer of 1971, the Nixon administration considered Japan a growing “threat” to American security. This perception helps explain the so-called Nixon Shocks of July-August 1971.

Asakai Koichiro, Japan’s ambassador to Washington during the 1950s, often spoke of a recurring dream in which he awoke to news that the United States had abruptly recognized China without informing Japan. This became known in diplomatic circles as “Asakai’s Nightmare.” The events of July 15, 1971, made him seem a visionary. Nixon was so angered by Sato’s failure to fulfill his purported promise to reduce textile exports that the president purposely withheld news from Japan about the opening to China. In fact, only the persistent effort of Undersecretary of State U. Alexis Johnson resulted in any advance notice being given. Shortly before Nixon’s televised announcement, Johnson reached by telephone Japan’s ambassador in Washington, Ushiba Nobuhiko. When told what Nixon planned, the envoy cried out, “Alex, the Asakai nightmare has happened.” Ultimately, Sato learned of the U.S. move three minutes before the president’s televised speech.

In mid-August, on the anniversary of Japan’s World War II surrender, Nixon struck a second blow against Japan. With no advanced warning, he proclaimed his “new economic policy.” The president ended the dollar’s convertibility into gold and levied a 10% surcharge on imports.
In a written directive accompanying his decision, Nixon proclaimed a “national emergency” under the terms of the Trading with the Enemy Act. He instructed his aides to publicize his use of the authority granted by this provocative law “only for textiles – i.e. Japs.” Unless Japan agreed to broader export restraints by October 15, 1971, the president threatened to impose unilateral quotas on Japanese goods. Privately, Nixon boasted that he had delivered these twin shocks in a manner calculated to “stick it to Japan.”

Yoshifumi Toyoda, a Japanese finance ministry official, believed the events of 1971 showed that the “Nixon administration was thinking about the possibility of using Communist China as a counterweight to Japan in post-Vietnam Asia.” Kissinger and Treasury Secretary John Connally, he argued, acted in tandem to “pull the rug out from under Japan” and had begun “playing a kind of China card to Japan.”

Kissinger, in fact, was not so much “anti-Japan” as he was “pro-China.” By his own admission, the president’s National Security Adviser had little understanding of world trade. He had no interest in textiles (other than pleasing his boss) but was fascinated by China’s potential as a military counterweight to Soviet influence in Asia. Japan’s failure to re-arm or adopt nuclear weapons diminished its importance in regional and world affairs, so far as Kissinger was concerned. Visionaries such as Zhou Enlai captivated him with talk of a new strategic balance. Japanese leaders who focused on the yen-dollar exchange ratio simply bored the American power broker. Moreover, he complained, whenever he met with Tokyo’s ambassador to Washington, the diplomat served him wiener schnitzel.

In spite of Nixon’s vengeful attitude toward Prime Minister Sato, during the final months of 1971, the United States, Japan, and the Western European nations developed a “floating” framework to set the value of world currencies in place of the now-abandoned Bretton Woods agreement. (This had only a limited impact on the U.S. trade deficit.) The Japanese finally agreed to textile export restraints (which proved irrelevant, because other Asian exporters took Japan’s place) and Nixon dropped the surcharge on imports. Meanwhile, Kissinger’s senior NSC staff convinced him and the president that, despite their frustration with Japanese trade practices, Tokyo remained the critical U.S. ally in Asia. If, while pursuing China’s friendship, America “uncoupled” Japan from its western moorings, it would lose in Asia much more than it gained. As Kissinger noted in a message to Nixon, in spite of their disappointments with Japan, it was “far better to stay with the devil we know” than to jettison the San Francisco treaties and to rely on an untested and uncertain dalliance with China.
The Japan Factor in Nixon’s China Visit

Upon his arrival in China on February 21, 1972, President Nixon spoke eloquently of his own journey from anti-communism to China. He announced that “what is important is not a nation’s internal political philosophy” but its “policy toward the rest of the world and toward us.” Both China and the United States, he stressed, worried about Soviet behavior and Japan’s intentions. Other questions paled in comparison. In Nixon’s private discussions with Zhou Enlai, the president stressed the need to cooperate in “restraining” Russian expansion globally. When the Chinese raised objections to the U.S.-Japan security treaty, Nixon and Kissinger asked Zhou and Mao to ponder the alternative – a Japan uncoupled from its American anchor. Should the United States, they asked, tell the “2nd most prosperous nation to go it alone, or do we provide a shield?” Was not a “U.S.-Japan policy with a U.S. veto” less dangerous than a “Japan only policy?”

When Zhou asked if the Americans could control the “wild horse of Japan,” Nixon answered that, without the security treaty and American bases, the “wild horse of Japan could not be controlled.” Kissinger argued that only the continued presence of U.S. bases and troops on Japanese soil prevented Tokyo from developing nuclear weapons or from “reaching out into Korea, or Taiwan, or China.” Unless the United States maintained its treaty with, and leverage over, Japan, Nixon added, “our remonstrations would be like empty cannon” and the “wild horse” would not be restrained.

At least rhetorically (and probably in his own mind), President Nixon had reversed the justification for the U.S.-Japan security alliance that had prevailed for more than twenty years. Instead of the treaty and American bases in the Pacific existing primarily as a deterrent to China, they were re-envisioned as a deterrent aimed at blocking “Japan from pursuing the path of militaristic nationalism.” Retaining the treaty and substantial U.S. forces in and around Japan, Nixon and Kissinger told Zhou, was “in your [China’s] interest, not against it.”

In February 1973, following Nixon’s reelection, the U.S. troop withdrawal from Vietnam, and completion of the strategic arms limitation agreement with the Soviet Union, Kissinger returned to Beijing. In talks that focused on the Soviet threat to China, Kissinger was struck by the “major turnabout” in the attitude of Mao and Zhou “toward Japan and the U.S.” During his first trip to China in July 1971, Kissinger recalled, Zhou had described Japan as “fattened economically by the U.S.” and poised to “expand its militarism” throughout Asia. During the next two years, China had continued to condemn the U.S.-Japan alliance. Now, however, the
Chinese “clearly consider Japan as an incipient ally” which could help “to counter Soviet and Indian designs.” Zhou acknowledged that the security treaty served as a “brake on Japanese expansion and militarism” and cautioned against any actions by the United States that might push Japan into a “situation where the Soviet Union became its ally instead of the U.S.” Mao took pains to urge Kissinger to spend more time in Japan and to “make sure that trade and other frictions with Tokyo …would not mar our fundamental cooperation.” Kissinger, in turn, cautioned Zhou and Mao against entering a bidding war “to compete for Tokyo’s allegiance.” This would only encourage “resurgent Japanese nationalism.”

As he left Beijing, Kissinger told Nixon that “we are now in the extraordinary position” that, among all nations, with the exception of the United Kingdom, the PRC might well be the closest to us in its global perceptions. No other world leaders have the sweep and imagination of Mao and Zhou nor the capacity and will to achieve a long range policy.” The United States and China had become, “in plain words…tacit allies.”

The End of the Cold War and the U.S.-Japan Alliance

Nixon’s opening to China, along with the economic strains of the 1970s, signified the beginning of the end of the “special relationship” that prevailed between the United States and Japan since 1951. During the next twenty years, the ebb and flow of the cold war with the Soviet Union, the evolution of a new world economy, and domestic political forces continued to transform the Pacific Alliance.

In July 1972, campaigning on the slogan “don’t miss the boat to China,” Tanaka Kakuei won the presidency of the LDP and became prime minister of Japan. The next month he informed Nixon that he intended to establish full diplomatic ties with China while maintaining the security treaty with the United States. Chinese premier Zhou Enlai, in a blow to Japanese Socialists and Communists, indicated that Beijing was prepared to deal with Tanaka even if Japan continued its military alliance with the United States.

Tanaka traveled to Beijing that September, where he and Zhou quickly agreed on a recognition formula that allowed Japan to maintain informal trade and cultural ties with Taiwan while shifting diplomatic recognition to the PRC. (Signing a formal treaty of peace and friendship took a bit longer, until 1978, in fact.) A year later, at the end of 1973, Beijing appeared to have not only accepted the idea of Japan playing a more active security role in Asia, but urged American and Japanese officials to
expand Japan’s military capabilities. In November, for example, Mao told Kissinger that Japan should help anchor an anti-Soviet military alliance stretching from Western Europe to northeast Asia. The communist leader sounded uncannily like John Foster Dulles, who had urged Japan to do the same thing in the 1950s with the notion of containing China! Also, like Dulles, Mao complained that Japan’s leaders were too cautious and told Kissinger that the Japanese were “afraid of you.” They needed reassurance of their continued importance to the United States!

Following Nixon’s resignation in August 1974, and continuing until 1981, deteriorating U.S.-Soviet relations strongly influenced the tone of Japanese-American relations. Although Presidents Gerald Ford and Jimmy Carter complained about the large and growing trade deficit with Japan, their administrations relied on Japanese economic and diplomatic cooperation in Asia and the Middle East. In 1978, however, the American Congress responded to budget pressures and complaints by U.S. manufacturers by adopting the first of several resolutions criticizing Tokyo for spending too little on its own defense.

When Ronald Reagan became president in 1981, he pledged to enhance U.S. military strength, challenge Soviet influence, and prod Japan into protecting its sea lanes out to a distance of at least 1,000 miles. Between 1982 and 1987, Congress several times demanded that Japan either expand its military capacity and take on a larger regional defense mission or compensate the United States for the cost of protecting Japanese interests. Some of this anger reflected genuine concern over equitable defense cost-sharing. But it also revealed growing frustration over Japan’s expanding trade imbalance, especially that caused by massive automobile exports.

Japanese-American economic and security friction during the 1980s would have been worse except for the strong personal bonds that Reagan established with Prime Minister Nakasone Yasuhiro, who took office in November 1982. An outspoken nationalist who echoed many of Reagan’s anti-Soviet themes, Nakasone endorsed the big American military build-up and applauded Washington’s policy of challenging Soviet influence in Africa, the Middle East, and Latin America. In fact, Nakasone talked a tougher game than he played. Japan’s defense budget rose in the 1980s, exceeding the symbolic cap of 1% of GNP in 1987, but never matched American demands.

In addition to Reagan’s affection for Nakasone, Secretary of State George Shultz, who replaced Alexander Haig in 1982, also emphasized cooperation with Japan. Shultz believed that, since 1972, the United States had placed too much emphasis on China’s strategic value as a counter to Soviet power in Asia. While not rejecting cooperation with Beijing, he
stressed the importance of cooperating more fully with America’s traditional Asian allies, especially Japan and South Korea. This outlook helped to ease tensions created by trade friction.

If Nakasone’s rhetoric pleased Reagan and American hard-liners, Japan’s money made them even happier. By 1985, the U.S. trade deficit with Japan reached $46 billion and rose to an annual figure of $60 billion by the time Reagan left office in January 1989. Japanese government and private investors soothed American feelings by purchasing about one-third of all the debt issued by the U.S. Treasury during the 1980s. By the end of the decade, Japanese investors held about 20% of all outstanding American government debt. In a single decade, the United States went from being the world’s biggest creditor to its largest debtor. Japan, in turn, became the world’s largest creditor. Some popular writers and journalists in the United States complained about America being absorbed into Japan’s new global “Co-Prosperity Sphere.”

To ease trade tensions in the 1980s, Tokyo accepted some limits on automobile exports to the U.S. market, but the Reagan administration and that of George Bush from 1989 to 1993 had limited leverage. They recognized that, in effect, Japanese purchasing of U.S. government debt financed much of the Reagan-Bush-era defense spending and tax cuts. The collapse of the Soviet Union in 1991 formally ended the cold war and called into question the remaining rationale for the U.S.-Japan security alliance. During the 1992 presidential campaign, Bush was frequently criticized for caving into Japanese pressure and failing to defend the American economy. One political rival, borrowing an observation from Chalmers Johnson, quipped that the “good news was that the cold war was over; the bad news was that Germany and Japan won.” In fact, despite predictions that “Japan, Inc.” was about to dominate the world economy, during the 1990s, Tokyo slid into a prolonged economic recession that lasted the rest of the decade and beyond. Gloomy predictions of an American collapse proved equally ill-founded. During the presidency of Bill Clinton from 1993 through 2001, the U.S. economy boomed and chronic budget deficits disappeared.

Absent cold-war certainties, Americans and Japanese, in and out of government, confronted a range of security questions. With the disappearance of the Soviet threat, what stake did the United States have in Asian regional security? What purpose did the U.S.-Japan security treaty serve in the post-cold-war world? Who, exactly, did it provide security for and against? Did it reassure other Asians that Japan would not unilaterally rearm and thereby stimulate a regional arms race, or did it perpetuate and
validate a misguided suspicion about Japan by the United States and most of Asia?

During 1995 and 1996, China responded with military exercises to efforts by Taiwan’s president, Lee Tenghui, to raise the island’s international profile. After large-scale ground and sea maneuvers, PRC forces fired several dummy missiles near and over the island. In a veiled threat, Beijing threatened to use nuclear weapons to prevent Taiwan from asserting its independence. Washington responded with a warning that any use of force against the island would have “grave consequences” for China. President Clinton then deployed a large naval flotilla in the region.

In April 1996, shortly after these angry exchanges, Clinton visited Tokyo. He and Prime Minister Hashimoto Ryutaro signed an agreement that extended and expanded the scope of the mutual security treaty. The President told the crew of the aircraft carrier INDEPENDENCE that its presence in the Japan-Taiwan area had, without firing a shot, reassured the nations of the Pacific and helped to “calm a rising storm.” Although neither Japan nor the United States envisioned a direct threat from China, Beijing’s muscle flexing over Taiwan appeared to breathe fresh life into the U.S.-Japan alliance.

In the 1970s, Nixon and Kissinger established a new relationship with China partly by encouraging Beijing’s suspicion of Tokyo while reassuring the Chinese that the security treaty kept Japan in check. By the end of the century, however, the tables had again turned. China’s rapidly growing trade surplus with the United States had grown nearly as large as Japan’s. As its economy and its regional power expanded, the PRC became more assertive in ways troubling to the United States. China’s claim to Taiwan, its weapons sales to the Middle East, allegations that China had tried to influence U.S. elections through illegal campaign funds, and the alleged theft of American nuclear weapons secrets by PRC agents became issues of bitter recrimination at the close of the 20th century. Republican attacks on the Clinton administration’s China policy became more strident than any anti-Chinese rhetoric heard since 1971.

America’s increased concern with the future direction of China refocused attention on some of the issues that originally inspired the U.S.-Japan military alliance. As in the past, when Washington’s relations with either Beijing or Tokyo deteriorated, the United States moved closer to the other Asian power. One could view this as either classic “balance-of-power” diplomacy or the ability of the United States to dislike only one major Asian nation at a time.

As Japan and the United States contemplated the future shape of their alliance, they grappled with practical as well as theoretical issues. For
example, during the 1980s and 1990s, a large proportion of American troops and equipment had been redeployed from the Japanese home islands to Okinawa. Although this transfer pleased most Japanese, it placed an especially heavy burden on the people of Okinawa. While leaders in both nations paid lip service to solving this problem, it remained unresolved as the 21st century began.

No one looking forward from the late 1940s could have predicted the remarkable events of the next half-century. Linked by trade and security ties, the United States and Japan had each benefited in unimaginable ways from their alliance. In spite of periodic tensions, over both China and trade, the Pacific Alliance helped keep the peace in Asia and created the foundation for a remarkably prosperous and stable half-century. By these measures, the treaties forged at San Francisco must be judged a great success.

Kiyoshi Sugawa

Introduction

From time to time, Americans argue that Japan is departing from the Japan-US security alliance in order to seek an independent defense and foreign policy. One of the most recent examples was when Japan decided to produce an indigenous intelligence satellite for its own use after the August 1998 North Korea Taepodong missile launch. Shortly before that, in the early 1990s, under Prime Minister Hosokawa, Japan was perceived as putting less emphasis on the Mutual Security Treaty (MST) with the United States in favor of stressing the importance of the United Nations. However, both American concerns and Japanese aspirations for an “independent Japan” are more likely emotional or political, rather than realistic.

This paper tries to examine the possibilities and the limitations of Japan’s search for “independence” by analyzing the jishuboei movement in the late 1960s and early 1970s, focusing on Yasuhiro Nakasone, who served as Director General of the Japan Defense Agency (JDA) from January 1970 to July 1971. In post-World War II history, the jishuboei movement was the most active during Nakasone’s tenure.

Before serving as Prime Minister (November 1982 - November 1987), Yasuhiro Nakasone was one of the most well-known advocates of a self-reliant posture in national security, referred to in Japanese as jishuboei. Unfortunately, jishuboei is usually translated into English as “autonomous or independent defense.” That translation implies that those who advocate jishuboei are arguing that Japan should dissolve its security alliance with the United States, when that is not the case. This paper, therefore, uses the word jishuboei untranslated.

It is more accurate to say that jishuboei emphasizes the improvement of Japan’s conventional, territorial defense and the regaining of diplomatic independence from the United States. However, a lack of overall political enthusiasm, domestic politics, international repercussions, and the cautious stance of the United States prevented even a modest version of jishuboei from winning support in Japan. The self-reliant foreign policy that jishuboei advocates sought was not realized. The improvement of Japan’s conventional defense was realized, however, but only in the context of U.S. strategy.
This paper first looks at the background of the *Jishuboei* movement in the late 1960s to early 1970s and then follows the achievements of Nakasone as Director General of the Defense Agency, using Japanese materials that include previous writings, newspapers, interviews with Nakasone himself, and official U.S. documents. In the concluding section, the possibility of *Jishuboei* today is discussed.

**Prelude to Nakasone’s *Jishuboei***

On January 14, 1970, Yasuhiro Nakasone was appointed General Director of the Japan Defense Agency in the third Sato cabinet. For the next eighteen months, he repeatedly emphasized the importance of *Jishuboei*. To understand Nakasone’s *Jishuboei* in his JDA Director General days, it is useful to review the general movement of *Jishuboei* in the 1950s and 1960s as well as Nakasone’s original thoughts on national defense.

**Jishuboei in the 1950s and Early 1960s**

Simply put, the Reform Party (*Kaishinto*) led by Hitoshi Ashida and Mamoru Shigemitsu, and Ichiro Hatoyama’s faction in the Liberal Party (*Fujinto*) were typical political forces demanding *Jishuboei* before “the combination of conservatives (*bushu-godo*)” in 1955. They advocated *Jishuboei* as an antithesis to then-Prime Minister Shigeru Yoshida’s initiative to rely as much as possible on the United States for the defense of Japan, while concentrating resources on economic reconstruction.

In November 1954, the Reform Party and Hatoyama’s group merged to create the Democratic Party (*Minshuto*). In its initial manifesto, they declared: “We would improve a small number of able defense forces balanced with national capacity. In order to prepare for both direct and indirect invasion, and enable the retreat of stationed [US] forces step by step, we would maintain the system of *Jishuboei*. As we develop such system, we would revise the Japan-US Security Treaty into reciprocal treatment.”1 Prime Minister Yoshida, then President of the Liberal Party, argued the opposite: “We would cope with enemies outside Japan through the Security Treaty with the US, and maintain internal security through the Safety Agency (*Hoan-tai*, or the predecessor of the Self Defense Forces).”1

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As Yoshimasa Muroyama explained the result of the April 1953 general election, the national debate over defense strategy was divided into three camps: “free ride on Security Treaty” (Yoshida’s Liberal Party with 199 seats), “autonomous diplomacy and defense” (the Progressive Party and the Hatoyama group with 111 seats), and “Reject Security Treaty and Protect Constitution” (the Socialist Party with 138 seats). However, the momentum for jishuboei as a means to realize the withdrawal of U.S. forces dropped off when a compromise was reached between Yoshida and Shigemitsu of the two conservative camps, Liberals and Democrats, creating in November 1955 the Liberal Democratic Party (Jiyu-Minshuto).

Since then, the momentum for jishuboei has been lost, although some advocates of jishuboei maintained latent power. Kiichi Arita, Director General of JDA (1968-1970) insisted that the defense of Japan should be primarily borne by Japan, and the Japan-US Mutual Security Treaty should supplement any shortfall in Japanese efforts. Under the Third Defense Buildup Program (sanjibo), 180,000 personnel were designated for Ground SDF, and Arita declared the intention to strengthen Maritime SDF, missile air defense, and electronic countermeasures in the future.

It is important to note that neither Ashida nor Hatoyama advocated jishuboei in its literal sense. By definition, jishuboei implies a Japan capable of independent defense without the Japan-US Security Treaty. The fact is, however, that real jishuboei in post-WWII Japan coexisted with the MST. One of the experts in the 1960s confessed: “Jishuboei does not mean that we defend our country alone, but it means that Japan makes self-reliant decisions regarding the US-Japan Security Treaty.” This terminological complication has brought ambiguity to the concept of jishuboei. Even ordinary people and the media at that time admitted that they were not very sure what jishuboei was.4

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1 Speech by Yoshida. Asahi Shimbun, March 25, 1953, in Ohtake ed., ibid., p.45.
2 Yoshimasa Muroyama, Nishuboei Aampo Yaise (Japan-US Security Arrangement), Vol. 1, p.175. (Yuhikaku, 1992). To be more precise, the national security policy of the Japan Socialist Party was diverted into right, mainstream-left, and ultra-left. The argument of the right socialists (later, Democratic Socialists) was close to jishuboei, because they claimed appropriate defense capability with the stationing of U.S. troops only in case of contingencies.
4 For example, Tomoharu Nishimura, one of the intellectuals in 1960s, confessed: “The contents of jishuboei have not yet been made clear. As I stated before, it is an orientation, and an impulse. It has not yet become a concrete plan.” Tomoharu Nishimura, Jishuboei no mondainen (Issues concerning jishuboei), Shinseiki-sha, 1968.
The scarcity of national resources in a defeated and unarmed Japan would surely have decreased the incentive for “autonomous jishuboei without MST” even if Douglas MacArthur had allowed it. The majority of people, holding the view that war was a sin, also preferred economic reconstruction to a buildup of national defense. A general nuclear-weapons allergy increased restrictions on jishuboei. Very few well-known figures advocated totally independent, or “nuclear-armed,” jishuboei. As politicians responded to anti-nuclear sentiment shared widely among the public, Japan had no other choice but to abandon purely autonomous jishuboei, because it had no other means to realize nuclear deterrence without someone’s help.

The Thinking of Nakasone in His Youth

After serving in the Navy and the Department of the Interior, Nakasone became a member of the House of Representatives in 1947 at the age of 28. He belonged to the political parties of the Progressive Party’s line and fiercely attacked Prime Minister Yoshida’s foreign and defense policy:

By this Security Treaty, defenseless Japan asked for the stationing of U.S. troops, and entrusted defense of its own soul to a foreign country, or tax of foreigners and blood of its young people. At that instant, Japan has already lost an equal voice as an independent nation… We do not mean to aim at establishing a Self Defense Force (jiei-gun) only in the narrow sense of the defense of Japan. Rather, it has roots in the dearest wish of the nation to make Japan’s position equal to others, recover our lost sovereignty, and let foreign troops withdraw from Japan as soon as possible, by declaring the will of the Japanese people to defend our nation by ourselves.5

Undoubtedly, one of the strongest pillars of Nakasone’s national security policy was a strong wish for the recovery of an independent national spirit.6 But it is not true that he demanded that U.S. troops totally withdraw. In 1953, when he visited the United States, Nakasone proposed to then-Vice President Nixon to revise the Security Treaty into an “equal” one and to reduce U.S. troops as Japan increased its army. At the same time, he carefully added that particular bases for the Air Force and Navy

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6 He called occupied Japan “MacArthur’s Empire” and criticized the dependent nature of the Japanese as “colonized spirit.” (Nakasone, ibid., p.55.)
should be kept in Japan under joint use. Later, in September 1969, Nakasone demanded the termination of the US-Japan Mutual Security Treaty around 1975, in order to conclude a new one.\(^8\)

The aim of creating a national army, or jiei-gun as he called it, was to regain final decision-making authority over the national defense and independence of the nation. As a balanced and calculating politician, however, Nakasone described his idea in a very self-controlled manner. He said he did not expect to create a huge volume of new Defense Forces but emphasized a few mechanized ground units. He also insisted that the creation of such Defense Forces should not sacrifice the standard of citizens’ lives.\(^10\)

While being an advocate of jishuboei, Nakasone well understood what kind of Japanese military role served the U.S. national interest. He had been told of the U.S. military requests of Japan during his trip to the United States in the 1940s. In his book Nibon no Shocho, Nakasone explained major roles that the future Japanese navy should fulfill for the protection of merchant ships and lines. They included protection of the trade route to Southeast Asia and the blockade of three straits. For the latter, he stated: “the Japanese navy should control the three straits of Tsushima, Tsugaru, and Soya, in order to deny Soviet submarines. This is what Americans demand

\(^7\) Nakasone proposed: “1. Creation of Japan’s self-defense forces: 2. Elevation of the present U.S.-Japan Security Treaty to the U.S.-Japanese Alliance: 3. Gradual evacuation of American troops in proportion to the increase of the Japanese self-defense forces. The fixed term of evacuation-5 years or so should be made. As to the special bases to be retained after evacuation, for instance some naval or air bases, it will be jointly administered by the Joint Commission to be created under the new Alliance Treaty.” (“Memorandum on Self-Defense of Japan,” dated September 4, 1953, in Nakasone, ibid., p.365.)

\(^8\) Nakasone explained his idea when he was named Director General of JDA: “The LDP also describes [Japan should maintain Security Treaty with the US] for considerably long time [but not indefinitely].” Although abolishing MST after 1975 is an inadequate expression, we need to respond far more flexibly in 1970s as we see economic development of Japan, change in our partner, or the US, behavior of China and Soviet Union. In sum, it is my opinion that we should, on consensus basis [between Japan and the US] at an appropriate time, dissolve MST to form a new relationship, reflecting those international situations.” (Asahi Shim bun, January 18, 1970.) During his tenure as Defense Chief, however, Nakasone seemed to try changing his image into “pro-American.” In July 1970, he expressed to Secretary of Defense Laird: “Japan-US security arrangement is necessary, and should be born almost indefinitely.” (Mainichi Shim bun, September 10, 1970.)

\(^9\) According to Ohtake, Nakasone tried to argue his defense policy in a way compatible with people’s family-first way of life, and succeeded in it. Hideo Ohtake, Nibon no Boui to Kokunaisi (Defense of Japan and Domestic Politics), pp. 39-50. (San-ichi Shobo, 1983)

\(^10\) Nakasone, ibid., p.54.
strongly, and is also important from the standpoint of sea traffic in the Sea of Japan. (Emphasis added by author.)”11 Nakasone was to devote his energy to expand Japan’s maritime role in this context when he later served as General Director of the JDA in the early 1970s and as Prime Minister in the mid 1980s.

Nakasone’s Idea of Jishuboei

Very much unlike the Department of Defense in the United States, the JDA and the SDF fell into obscurity in the early post-WWII period. The JDA was not, and is not even now, a ministry but an agency. The post of General Director of the Japan Defense Agency therefore was thought to be light for a politician like Nakasone, one of the LDP faction leaders. But Nakasone demanded the Defense Agency Head post, and then-Prime Minister Eisaku Sato thought it useful to anchor this leader of the anti-mainstream faction in the cabinet.12 Nakasone was to take full advantage of this position to carry forward the idea of jishuboei, while increasing his popularity with the public.

This section describes the ideas Nakasone held as Director General of the Defense Agency, and explains the background of his era, without which jishuboei would not have become the center of public attention.

Background of the Rise of Jishuboei

During the period when Nakasone served as Director General of the JDA, the jishuboei movement experienced its highest peak of enthusiasm in post-WWII history. It was not only because of Nakasone’s charismatic personality, which helped, but also because of many favorable conditions, both domestic and international, that presented simultaneously in the late 1960s to early 1970s.

Reversion of Okinawa

The right wing of the LDP began pursuing jishuboei in the 1950s, although their voices were confined to a minority. In the late 1960s, however, jishuboei advocates suddenly received strong support from Prime Minister Sato, who deliberately began to emphasize it.

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11 Nakasone, ibid., pp.161-162.
12 Ohtake, Nihon no Boei, p.33.
For Sato, the reversion of Okinawa was a top priority, a fitting end to his remarkable career, and he was ready to do everything to realize it. Knowing that the United States wanted Japan to increase its responsibility for stability and defense in Asia, Sato thought that a strong affirmation of jishūhōei would make the Americans feel more comfortable about Okinawa’s reversion.\textsuperscript{13} Accordingly, after his summit talk with President Nixon in November 1967, Sato explicitly began to wage a campaign to show that Japan was ready to take on a larger share of responsibility for defense and stability.\textsuperscript{14} In his Diet speech on December 5, 1967, he stated:

The Japanese people should not only fulfill such international responsibilities steadily, but also show their mettle to defend their own country by themselves all together, and consider realistic policy. Then I am convinced that we would be able to improve our international position and contribute to stability in Asia, which would lead to Okinawa’s return to bone country in the near future. (Emphasis added by author.)

It is easy to imagine how Nixon’s Guam Doctrine in July 1969 reinforced this idea.

**Economic Growth**

Continued economic success also made some people feel that Japan was economically capable of bearing the cost of a full-fledged military buildup. The following comments by Prime Minister Sato describe the confidence arising from Japan’s remarkable economic growth:

I think it natural for any independent nation to defend itself by its own forces. But Japan did not have enough national resource and the government needed to focus on the life of the people and public welfare. Until now, the strength of the nation has grown. Japan has

\textsuperscript{13} The link between Japanese defense efforts and the U.S. military presence was already clear at the meeting between Hayato Ikeda, Special Envoy for PM Yoshida, and Assistant Secretary of State Robertson in October 1953. The U.S. government suggested its will to withdraw U.S. troops from the Japanese mainland as soon as Tokyo maintained self-defense capability. (See Muromaya, *ibid.* Vol. 2, pp. 145-154.)

\textsuperscript{14} The joint statement declared: “the Prime Minister made clear the intention of his government, following reversion, to assume gradually the responsibility for the immediate defense of Okinawa as part of Japan’s defense efforts for her own territories.”
become the second biggest economy in the world. Although we have promised not to possess specific weapons, I think it a matter of course for Japan to return to what it should naturally be like.\textsuperscript{15}

Japan’s defense expenditure also rose sharply with the inauguration of the Self Defense Force in 1954. It amounted to ¥135 billion for fiscal 1955 and stayed around that level until 1960, but then grew rapidly in the 1960s and reached ¥570 billion in 1970, although the share per General Account Budget declined from 13.61\% in 1960 to 7.16\% in 1970.

\textit{Calculation of Business Circles}

Some of the business groups also echoed the call for \textit{jishuboei}. Among them, \textit{Nikkeiren}, the Japan Federation of Employers' Associations, was the most vocal group. According to Ohtake, \textit{Nikkeiren}'s initial interest in the defense field was domestic security, because they were wary that an extension of the MST in 1970 could possibly trigger a repetition of the social turmoil witnessed during the 1960 MST revision. While critical of radical increases in the defense budget, Takeshi Sakurada of \textit{Nikkeiren} stressed the need for the Japanese people to possess the resolve to defend their own country, and called for the revision of the Constitution.\textsuperscript{16}

Elsewhere, the defense industry had a natural business interest in supporting \textit{jishuboei}. In early 1970, the Defense Production Committee of \textit{Keidanren}, the Federation of Economic Organizations, demanded that domestic arms production was essential to establishing a \textit{jishuboei} system. As seen later, Nakasone apparently agreed with them in pursuing the indigenous development of weapons.

\textit{Détente and Reduced Threat Perception}

The development of détente between the United States and the Soviet Union subsequently decreased Japan’s perception of threat. Rising tension between the Soviet Union and the People’s Republic of China in the late 1960s also lessened the perception of threat from the Russians. Some politicians and defense officials declared that Japan had a very low probability of being attacked from outside. Nakasone also stated in 1970

\textsuperscript{15} Remarks in Budgetary Committee of the House of Representatives on February 24, 1970. (\textit{Yomiuri Shimbun}, February 24, 1970).
\textsuperscript{16} Ohtake, \textit{Nihon no Böei}, pp.53-56.
that he believed the current peace would be maintained for the next ten years or so.17

When the Japanese had felt severely threatened, it was out of the question to demand less U.S. commitment for their defense, considering Japan’s poor military capabilities as a result of occupation and demilitarization. When the threats became small, however, Japan might well be able to respond to the threats alone, at least logically. A more benign security environment in the late 1960s created room for Japan to seek a more self-reliant defense posture.

An interview with Nakasone confirmed that the perception of threat from Russia played an important role in creating Japan’s defense policy. Asked by this author about the difference between the argument of jishuboei when he was Director General of the Defense Agency and his strong support of the alliance as Prime Minister in 1980s, he replied:

That is because of the threat of Soviet Union, or my own judgment that collapse of Soviet Union is possible [in 1980s]. That is why I supported Reagan and persuaded Mitterand at the Williamsburg summit in 1983. Regarding the redeployment of SS20, I tried to put the phrase “The security of our countries is indivisible and must be approached on a global basis” [to secure the security position of Japan]… Seen from current eyes, we united at the Williamsburg summit and Soviet Union, or Gorbachev collapsed. But I did not have such an opinion yet when I was the Director General of the Defense Agency. In 1983, I came up with policy toward Soviet Union for the first time. (Emphasis added by author.)18

Change in U.S. Strategy

By the end of the 1960s, Japanese politicians were obliged to seek a new defense policy, in order to respond to a change in the U.S. global strategy that followed the loosening of Cold War tension. For Nakasone, jishuboei was the answer.

Détente with the Soviet Union, failure in Vietnam, and subsequent weakening of the economy forced the United States to reconsider its global military strategy. America now expected Japan to play a larger military role in assuring its defense and East Asian regional stability. On July 25, 1969,

18 Interview was conducted on September 4, 2001 at Nakasone’s office in Sabo Kaikan, Tokyo.
President Nixon announced the “Guam Doctrine.” While stressing that the United States “should provide a shield if a nuclear power threatens the freedom of a nation allied with us or of a nation whose survival we consider vital to our security,” Nixon also expected “the nation directly threatened to assume the primary responsibility of providing the manpower for its defense.”

Some Japanese saw this doctrine as a greater chance for *jishuboei*. Nakasone, of course, being one of these quick-witted figures, declared: “There is an issue of adjusting our defense system to current changes such as the approaching reversion of Okinawa and US president Nixon’s Guam Doctrine. We need to accentuate an idea of defending our own country by us all.”

The actual U.S. strategy on Japan, however was double-tracked. National Security Decision Memorandum (NSDM) 13, dated May 28, 1969, described the Nixon Administration’s policy: the United States would continue the “present policy of encouraging moderate increases and qualitative improvement in Japan’s defense efforts, while avoiding any pressure on her to develop substantially larger forces or to play a larger regional security role.” (Emphasis added by author.)

**Nakasone’s *Jishuboei***

It was Yasuhiro Nakasone, a very ambitious, capable, nationalistic-flavored and opportunistic political leader, who tried to take advantage of the encouraging tides for *jishuboei* and promote his own belief. To know what Nakasone meant by *jishuboei* during his tenure as Defense Chief, it is useful to start from his “five principles on *jishuboei* (*jishuboei gogensoku*)” that Nakasone presented on March 23, 1970:

(1) Observe the Peace Constitution and concentrate on territorial defense
(2) Try to seek harmony with other countries together with diplomacy

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19 *Yomiuri Shimbun*, January 15, 1970. Also asked by the author if he had consciousness about the need to respond to big events like the Guam Doctrine or the Okinawa reversion, he replied: “Yes, of course. The situation was the same as Koizumi cabinet faces today. For example, we need to approach right to collective self-defense if we are to remove Marines [from Okinawa], as far as Armitage theory is concerned. The reversion of Okinawa and *jishuboei*, and [Marines and] right to collective self-defense...such factors are intertwined. In this sense, this is the second time. The first was the reversion of Okinawa.” (Interview as of September 4, 2001)
(3) Firmly maintain civilian control
(4) Obey the three non-nuclear principles (of “not possessing nuclear weapons, not producing them, and not permitting their introduction in Japan”)
(5) Supplement with Japan-US security arrangement

There are three points I think worthy of note. First, Nakasone made it clear that Japan would not seek the nuclear option. He gave three reasons for abandoning nuclear weapons: the nuclear option would damage the national consensus on defense and erode its basis; because of the narrow and long shape of the archipelago, Japan is not geopolitically able to possess second-strike capability, without which much of the strategic utility of nuclear weapons is lost; and there was only small possibility for large-scale nuclear warfare under the nuclear stalemate between the United States and Soviet Union.20

Second, Nakasone did not mean to pursue purely “autonomous/independent defense” without the MST and the United States. This is an inevitable conclusion from his renunciation of the nuclear option. Japan needed a nuclear umbrella from others, and that was the United States. Therefore, for Nakasone, Jishuhoei should be compatible with collective defense:

*Jishuhoei does not necessarily mean “independent defense (jirikiboei).” Today, affiliation with an ally is compatible with jishuhoei, as long as we maintain self-reliance... Vague expectation or blind dependence [on the US] should be fundamentally wiped away. We should make clear what Japan should do and what we ask our partner for cooperation. Then we can be confident that we trust each other. The most important thing for Japan today is to create its own national security policy for Japan and arrange it with American policy.*21

While leaving strategic deterrence to the United States, Nakasone tried to realize conventional-level, independent, territorial defense by Japanese forces. This was not unrealistic for Nakasone, because he saw little direct threat from the Soviet Union. An indirect threat, such as a plot to overthrow the government through rebellion, and limited attack on some

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20 From instructions to senior staff of SDF on March 29, 1970, Mainichi Shimbun, March 30, 1970.
21 Nakasone’s broadcast speech in JDA. Asagumo Shimbun, March 19, 1970.
parts of Japan from outside, could be and should be countered by Japan’s own conventional forces.

Third, Nakasone wanted to achieve a more self-reliant attitude in foreign policy decision-making. He believed that Japan would be able to increase its diplomatic self-reliance, as it increased its own defense capacity and lessened its dependency on the United States for the defense of Japan. Said Nakasone:

… It is a matter of course that we receive influence from other country if we rely excessively on others. In that sense, I think it essential for Japan to retain reasonable jishuboei to some extent, especially when we see quadrangular game and so on in the future Far East.22

How did the United States perceive Nakasone and the jishuboei movement? The U.S. government did not take the jishuboei movement so seriously as to feel it threatening.23 Nakasone recalled that Defense Secretary Laird understood him well, and the U.S. government supported his idea “by a margin of 7 to 3.”24 But then-Ambassador to Japan, Armin Meyer, was not pleased with Nakasone’s jishuboei:

Referring to certain recent suggestion in Japan (by Nakasone) that Japan’s defense policy should be revised so as to relegate security relationship with US, i.e., MST, to “supplementary status”, Aichi [Foreign Minister] noted his recent “internal discussions” (obviously with Nakasone and PRIMIN) in which he has been affirmed that GOJ values and stands by not just article V but also article VI of MST, latter referring to security of Far East. For Japan application of MST in interest of security of Far East is, as Aichi’s interpreter phrased it, “primordial consideration”… I [Meyer] said these were welcome words indeed, for there had been some disturbing public statement by GOJ officials even recently (Nakasone) to effect that Japan would develop “autonomous self-defense” which would

23 Ambassador Meyer reported: “Despite some frustration in Japan re excessive dependence on the United States, the majority of the Japanese people and more importantly the LDP mainstream are satisfied with the way in which the overall US-Japan political/military relationship has evolved.” (Report by Ambassador Meyer, entitled “Japan’s Search for Its Role in the World,” presented to Marshall Green, Assistant Secretary for East Asian Affairs, Department of State, April 12, 1971.)
24 Interview by author on September 4, 2001.
obviate need for US facilities other than on contingency basis and in
effect relegate MST to insurance policy with no premiums. It was good to
have reassurance, I said, that official GOJ and USG policies both
remain committed to security of “Far East.”

Meyer then suggested to Defense Secretary Laird (who was to
receive Nakasone in the summer of 1970) “some means to ‘educate’
Nakasone on US views of joint use and mutual aspects of [the] Security
Treaty.” Meyer suggested:

SECDEF might wish to question assumption that Nakasone interest
in “autonomous defense” clearly rests on close Japan-US security
cooperation, as well as Japanese concern for peace and security in
Far East, and does not imply armed neutrality concept. SECDEF
should underscore fact that both Japan and the US recognize
importance of security relationship with respect to defense of Asia,
including Japan, and not just Japan exclusive of Far East.

Publicly, Edwin O. Reischauer, former Ambassador to Japan, was
alarmed in early 1970 at the temptation of jishuboei advocates to take a
unique stance apart from others. He pointed out the irregularity of going
against the trend of collective defense orientation among developed western
countries.

**Advances and Setbacks for Nakasone’s Jishuboei**

As Director General of the Defense Agency in the third Sato cabinet,
Nakasone worked aggressively to turn his idea of jishuboei into actual policy.
He met a lot of resistance, however, both from inside Japan and abroad.

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25 Emphasis added by author. Secret Cable #006766 dated September 1, 1970,
from Armin Meyer to Secretary of Defense and JCS, found at document #01316 in
National Security Archive Microfiche Collection Japan and the United States:
26 Secret Cable #006624 dated August 27, 1970, from Armin Meyer to Secretary of
State and Secretary of Defense, found at document #01314 in National Security
Archive Microfiche Collection Japan and the United States: Diplomatic, Security and
Considering the two aims of his initiative – namely, an increase in the defense capability of Japan and a more self-reliant diplomacy vis-à-vis the United States – the following is a review of what he tried to do, what he could do, and what he could not do.

**Efforts to Increase Japan’s Defense Capability**

Japan’s defense budget continued to increase through the 1970s. On the other hand, efforts at making Japan’s defense more indigenous was not an easy path to follow.

**Revision of Basic Plan for National Defense**

In order to realize a bigger Japanese role in the defense of Japan, Nakasone tried to revise the official defense strategy that had been adopted in 1957, the Basic Policy for National Defense (BPND or Kokaiho no Kibon-boshin). In the BPND, the government explained that Japan would “deal with external aggression essentially on the basis of the Japan-U.S. security arrangements, pending the effective functioning of the United Nations in the future,” and that the defense capability of Japan should be developed incrementally, “with regard to the nation’s resources and prevailing domestic situation.”

Nakasone demanded that the BPND be amended along the lines of his five principles of jishuboei. Regarding the increase in defense capability, he wanted to delete the phrase “with regard to the nation’s resources and prevailing domestic situation” from the original article so that he could more flexibly pursue the military capacity needed for his jishuboei.

He also wanted to change the basic defense strategy from “MST first” to “jishuboei first.” He justified the emphasis of jishuboei over the Japan-US MST because either Japan or the United States could unilaterally abolish it with one-year notice after the automatic 1970 extension of the treaty.28 At the same time, he did not forget to mention that the principles of remaining non-nuclear, and of civilian control, should be also included in the new BPND. Later, he preferred to say that Japan’s goal was becoming a “non-nuclear middle power.”

At first, Prime Minister Sato seemed to show support for Nakasone’s initiative. In February 1970, he stated in the Diet: “In the future, Japan will set principal axis to SDF and the Japan-US security

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arrangement will supplement it.” In the following month, Sato also expressed his support for the “five principles on jishinboku” and suggested that the BPND should be revised in that direction.

The Fourth Defense Buildup Program

Nakasone was also active in drafting the Fourth Defense Buildup Program (Yoji-bo), a blueprint for a weaponry system and a budget for the 1972-1977 period, in order to make Japan capable of repelling conventional external attacks without U.S. troops. Although he emphasized that he wanted to set a limit on the increase in the defense budget, the draft of the 4th DBP required approximately ¥5.2 trillion, or 2.2 times as much as the 3rd DBP. Japanese defense expenditures were expected to exceed that of Italy and come close to the United Kingdom’s military budget by the time of the completion of the 4th DBP. Functionally, the Self Defense Force would be strengthened to 350,000 tons of maritime power, and 1050 airplanes. This level was roughly 2.5 times larger than that of the 3rd DBP.

One of the most significant characteristics of the 4th DBP was its emphasis on maritime and air defense. Nakasone stressed the need to improve Japan’s air and anti-submarine capability to the extent that Japan would be able to deny foreign submarines the freedom to sail in Japanese waters, including the area within the lines between the Ryukyu Islands, Okinotorishima Island, and Minamitorishima (Marcus) Island. This idea corresponded exactly with the U.S. military’s expectation that Japan block the Soviet navy, especially their submarines.

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29 Tokyo Shim bun, February 16, 1970.
30 However, Sato dismissed the possibility that Japan might replace the U.S. overseas responsibility, even after the Guam Doctrine. Asahi Shimbun, March 31, 1970, and Nikkei Shimbun, March 24, 1970.
31 Although the buildup appeared remarkable, the real combat capacity of SDF after the completion of the 4th DBP was still limited even at the level of conventional defense. For example, if one country invaded into a part of Hokkaido using conventional weapons, all SDF could do was to hold out for one month or so. Meanwhile, Japan would wait for U.S. assistance or work with the international organization. (Yomiuri Shimbun, April 28, 1971.)
32 The 3rd DBP had such initiative, too, but it started from the 4th DBP in a real sense, accompanied by a budget.
33 Yomiuri Shimbun, February 2, 1971.
34 Mainichi Shim bun (October 10, 1970) reported that the Pentagon seemed to have requested Japan to strengthen the patrol of [three] straits and to obtain capacity to block them in a combat situation.
As Muroyama pointed out, Nakasone needed defense capabilities larger than what he thought necessary for the ground defense of Japan because Nakasone thought Japan should have diplomatic influence comparable to the United States, by possessing sea power in the Western Pacific. In reality, however, the strengthening of the JMSDF was in line with U.S. strategy, and Nakasone was well aware of that.

The fourth DBP reflected Nakasone’s reduced perception of threat and concentrated on the response to a limited attack on Japan. A draft stated: “For the time being warfare that involves the use of nuclear weapons or large-scale war like WWII is inconceivable. We can assume that the probability of a sudden indiscriminate attack upon our territory is quite low. Therefore, for our country, we can respond to various invasions by enhancing the defense posture to respond to limited local war by conventional weapons.”

Resistence to Nakasone

As expected, Nakasone’s aggressive defense policy was viewed skeptically both in Japan and abroad. Not only neighbors in Asia and the Pacific but also European countries expressed concern about possible military resurgence and worry about Japan’s acquiring nuclear weapons. Opposition parties, of course, severely attacked the Sato cabinet. In the LDP, Kakuei Tanaka, Secretary General of the LDP and one of the two most powerful candidates to succeed Sato’s premiership, stated critically: “Jishubo is concerned with morale. It should be distinguished from jiriikuboei (independent defense).” Foreign Minister Kiichi Aichi and Chair of the LDP’s Foreign Policy Commission, Tokusaburo Kosaka, argued that subordinating the MST arrangement to jishubo is “not a good idea as it gives the impression of weakening the important role the MST arrangement is playing for the defense of Asia, including Japan.”

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36 From this viewpoint, the difference between Yasuhiro Nakasone and Takuya Kubo, a JDA official who theorized a concept of “defense capability required for normal condition (jobi-heiryoku)” as an antithesis to a concept of “defense capability required for emergency situation (yugi-shojo-heiryoku),” was not as large as usually thought.
37 For example, the October 26, 1970 edition of *Mainichi Shimbun* introduced cautious responses to Japan’s first Defense White Paper from the world. They included the media of South and North Korea, Hong Kong, Singapore, India, Australia, Britain, France, Germany, and the United States.
38 According to the interview with Nakasone, he recalls that Aichi and Takeo Fukuda supported Nakasone’s idea. He says it was Hori who strongly opposed
Finance tried to resist Nakasone’s 4th DBP initiative, citing budgetary reasons.

By the spring of 1971, Sato thought he should distance himself from Nakasone’s idea. According to Sato’s diary, the Prime Minister was more concerned with the negative influence jishuboei could have on the upcoming election. He personally told Nakasone at least twice, in March and April 1971, that he was against the hasty revision of the BPND.39

Moreover, because Sato’s motivation for stressing jishuboei was related to the reversion of Okinawa, he did not have much incentive left to advocate it, despite repercussions once the completion of the deal on Okinawa was in sight. (The Japanese and U.S. governments concluded the “Agreement Concerning the Ryukyu Islands and the Daito Islands” on June 17, 1971.) As for the content, Sato was concerned that emphasis on jishuboei might give the impression that Japan would change its “exclusively defensive (senshboei)” posture, thus inviting further criticism of a military revival.40

On the other hand, paying careful attention to the United States, he was hesitant to repeat the three non-nuclear principles in the BPND. He was afraid that the inclusion of the non-nuclear principle might rule out any possibility of introducing nuclear weapons, while Japan was relying on U.S. nuclear deterrence.41 Consequently, the revision of the BPND fell through, and it survives unchanged even today.

Finally, through a cabinet reshuffle in July 1971, Nakasone was transferred to the Chair of General Affairs in the LDP, one of the three top posts of the party.42 His departure from the JDA rapidly decreased momentum for jishuboei. In October 1972, the budget amount for the 4th DBP was officially reduced from ¥5.2 trillion to ¥4.63 trillion. The reduction of that expenditure might not have been avoidable considering the “Nixon Shock” that suspended the dollar’s convertibility into gold and caused the appreciation of the yen. However, more importantly, the

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40 Sato gave the cold shoulder to the concept of “non-nuclear middle power,” too. He said that the government would not use this term because “middle power” might send the wrong signal that Japan was going to change the very defensive nature of SDF.
41 According to Wakaizumi, Sato is suspected to have a secret agreement with Nixon over the introduction of nuclear weapons. Izumi Wakamiya, Tasaku-nakarashiro Shintensho-bosha, (Bungei- Shunju, 1994).
42 From the viewpoint of Nakasone’s political career, this transfer should be seen not as a demotion but as a promotion.
emphasis on *jishuhoei* in the draft version disappeared in the final version of the 4th DBP. For example, the draft had explicitly stated that Japan would “try to improve the system of *jishuhoei*” against conventional, limited attack and indirect aggression, but that statement was completely missing in the 1972 version.

**Struggles to Regain Self-Reliant Diplomacy**

In advocating *jishuhoei*, Nakasone was eager to regain self-reliance in Japan’s foreign policy. For him, *jishuhoei* was one of the means to recover independent diplomacy.

**Reduction of U.S. Bases**

The most important issue of his time was the reduction, and return, of U.S. bases in Japan. As evident in his early writings, one of the biggest reasons for Nakasone’s eagerness to have military was to get American troops withdrawn from Japan.

Already in the ninth Security Consultative Committee, held in December 1968, the U.S. side presented a list of approximately fifty bases that the United States would consider consolidations. In the eleventh SCC, held in Tokyo in May 1970, Nakasone requested the United States to accelerate the review of 26 unconsolidated bases on the list. He also expressed Japan’s willingness to proceed with *jishuhoei* and alter the status of the MST arrangement into one supplementary to *jishuhoei*. Nakasone emphasized the need for the United States to respond positively to changes in Japan’s defense strategy.

Seen from the eyes of the Americans, however, the same picture looks quite different. For example, Ambassador Meyer viewed Nakasone’s initiative to reduce U.S. bases in Japan rather cynically:

Nakasone views on joint use [of US bases in Japan] is based more on political than security considerations. Nakasone evidently first checked out joint use as possible political issue and, *having learned there were already many instances of US-SDF joint use, and that US favored expanded joint use, he broached issue publicly as his own in terms best suited appeal to Japanese nationalism*. Unfortunately this did not explicitly include recognition broader aspects Far East security; role played by US bases Japan and Okinawa; or, mutuality our security interests. Result was highly political, nationalistic appeal for “Japan defending Japan”. At same time, he carefully qualified
ever[r]y statement to conform to GOJ policy. Simply put, Nakasone is a politician who says different things to different people and what he says in Tokyo may well be different from what he will say in Washington. (Emphasis added.)

If Meyer is right, it was not that Japan could use jishūgoei as leverage to push forward the base issue, so much as that the United States tried to exploit the reversion of Okinawa and other bases in Japan to achieve advantageous conditions regarding prior consultations. The primary rationale for the U.S. bases to exist in Japan was not the defense of Japan. Rather, the United States found them essential for the deployment of U.S. forces throughout the region. Even though Japan had been able to fulfill wholly its duty to defend its territory at the conventional level, the core reason for having U.S. bases in Japan would not be affected.

In September 1970, in Washington DC, Nakasone suggested that important bases for the United States, such as Misawa, Iwakuni, Yokosuka, and Sasebo, should be excluded from consolidation and realignment. He did not seem to have the intention to stick to the radical reduction confronting the convenience of the United States. Finally, on June 25, 1971, the Japan-US Joint Committee (Nichibei Godo Iinkai) reached an agreement that the U.S. troops would significantly withdraw from Misawa, Yokota, Atsugi, Tachikawa, Itatsuki, and so on.

In fact, Japanese foreign policy makers were compelled to pay the price of emasculating the prior consultation system of the MST. In his September 1970 speech at the National Press Club in Washington DC, Nakasone stated that, after the consolidation and realignment of the U.S.

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44 The United States at first hinted at transferring major parts of the base facility at Yokosuka to Sasebo, and later canceled the initial proposal on the objection of the U.S. navy. Ambassador Meyer suggested to Secretary of State William Rogers that the official rationale for this cancellation should be due not to U.S. convenience, but because of the JMSDF’s inability to take over the Yokosuka facilities. (Secret cable #000543 dated January 20, 1971, from Ambassador Meyer to the Secretary of State, found at document #01357 in National Security Archive Microfiche Collection Japan and the United States: Diplomatic, Security and Economic Relations, 1960-1976, edited by Robert A. Wampler (2000) Chadwyck-Healey, Inc., Alexandria, Va.)
45 Most of them became dual-use between the United States and the SDF. Part of Itatsuki and Atsugi were to be used with civilians.
bases in Japan, Japan would allow the U.S. forces to re-deploy to the necessary bases if a contingency took place.\(^{46}\) His remarks were interpreted as meaning Japan would not limit the American use of Japanese bases in emergencies, including military contingencies on the Korean Peninsula or in the Taiwan Straits. Above all, Nakasone secretly conveyed a message that Japan would permit the introduction of nuclear weapons by the United States in Japan. According to Meyer:

> He [Nakasone] then said that, so long as US nuclear deterrent continues to function effectively, he sees no need for Japan to acquire nuclear weapons. In fact, he plans to insert a non-nuclear statement in the forthcoming revision of Japan’s basic defense plan. He added that it needn’t be said publicly, but he thought, even though Japan maintains a non-nuclear policy, *it should reserve the right to allow US to introduce nuclear weapons into Japan in case of future emergency need.* (Emphasis added by author.)\(^{47}\)

Because the role of Nakasone and the JDA regarding the base negotiation was limited, it is unfair to claim that they were responsible for the compromise, but these episodes eloquently illustrate the limits of Nakasone’s *jishuboei.*

**Membership of Security Consultative Committee**

Nakasone wanted to improve Japan’s inferior diplomatic position vis-à-vis the United States. To symbolize a more equal partnership between Japan and the United States, he tried to change the U.S. membership of the Security Consultative Committee (SCC), today known as “2 plus 2.” When

\(^{46}\) *Mainichi Shim bun,* September, 22, 1970.

he visited Washington DC in September 1970, Nakasone proposed to U.S. Defense Secretary Melvin Laird that a regular ministerial meeting be arranged between the Foreign Minister and the Director General of the JDA from Japan, and the Secretary of State and the Secretary of Defense from the United States. At that time in the SCC, the U.S. counterpart to the Japanese Foreign Minister was the Ambassador to Japan, and the counterpart to the Director General of JDA was the Commander in Chief of the U.S. Pacific Command. Nakasone argued that the current arrangement was both outdated, considering Japan’s growing national power, and problematic, in terms of political utility and the viewpoint of civilian control, especially in cases of prior consultation under the MST.48

Faced with Nakasone’s “fair” request, Laird agreed with him personally and said that the State Department would also give favorable consideration to the proposal. However, Nakasone’s proposal was forgotten once he left office. It was finally realized thirty years later, in 1990.49

**Domestic Production of Weapons**

Nakasone wanted to increase indigenous development of weapons systems. Following the July 1970 JDA decision to facilitate domestic production of armaments to defend Japan, he announced in April 1971 that Japan would independently develop Airborne Early Warning (AEW) planes, spending ¥12 billion in R&D over the following six years.50 Importing of armaments was ruled out, because there would be sufficient time for indigenous development considering the improved security environment.

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48 Nakasone considered that bureaucratic branch offices abroad were not appropriate counterparts to make politically important decisions in case of contingencies that require prior consultation under the MST. Mainichi Shimbun, September 10, 1970.

49 One of the official reasons for U.S. reluctance was the tight schedule of the Secretary of State.

50 One of the emphases of the 4th DBP was the improvement of Japan’s intelligence capability. Nakasone said: “It is the most important thing for defense to know both where [the enemy] comes from and what the situation is by having long ears like a rabbit. And even when we ask Americans to give us information, they do not give us unless we have some information to exchange.” (Interview in NHK television program “Yojibo: Nakasone-chokan ni kiku [The 4th Defense Buildup Program: Ask Director General Nakasone],” as introduced in Asakuma Shimbun, May 6, 1971) The possession of AEW was a priority for both strengthening maritime defense and improving intelligence capability.
The ratio of domestic production under the 4th DBP was expected to rise to 80%, up from 50% under the 3rd DBP.\textsuperscript{51} The initiative to produce AEW nationally encountered several hurdles. The Ministry of Finance criticized domestic production for budgetary reasons, because domestic production was usually more costly than importing. Furthermore, the United States required the import of U.S.-made weapons, as a way to improve the balance of payments and to defend the dollar, as well as a means to improve Japan’s defense capability most efficiently. In July 1971, Keikichi Masuhara, the General Director of the JDA who succeeded Nakasone ten days before, reassured Defense Secretary Laird that the GOJ would proceed with further defense cooperation with the United States and purchase U.S.-made weapons.\textsuperscript{52}

The U.S. rollback policy seems to have worked well. Indigenous R&D projects for the AEW were suspended after 1972, and the JDA finally decided in 1982 to purchase the E2C “Hawk Eye” from Grumman.

**Conclusion**

At least thus far, what the Japanese meant by *jishüboei* in the post-World War II period has not been purely “autonomous defense,” advocating abolishment of the Japan-US Mutual Security Treaty. Reliance on U.S. strategic nuclear forces logically limits severely the chances of “autonomous defense.” Especially when tensions rose with the Soviet Union, Japan had nowhere to turn but to the U.S. nuclear umbrella. Unless Japan changes its non-nuclear strategy, or until nuclear threats disappear from the earth, Japan will continue to need nuclear deterrence from the United States.

Hence, Nakasone’s *jishüboei* placed emphasis on the improvement of Japan’s conventional war-fighting capability and sought more independent foreign policy making. As for the latter, however, Japan met pressure from abroad, including the United States. Asian neighbors were alarmed that a self-reliant Japan would result in a revival of militarism. The United States preferred a silent Japan to vocal one.\textsuperscript{53} Above all, Japan has

\begin{footnotesize}
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\item \textsuperscript{51} A tenacity for domestic production and indigenous development of weaponry systems was characteristic of Yasuhiro Nakasone. He tried again to push domestic production of the FSX when he became a Prime Minister in the mid 1980s.
\item \textsuperscript{52} Muroyama, *ibid.,* Vol.2, p. 323.
\item \textsuperscript{53} Ambassador Meyer frankly wrote: “But with increasing successes there are bound to be increasing problems … In a larger sphere, the more Japan fulfills its power potentials; the more it will demand that its voice be heard. Its decision will not always be identical with those of the United States.” (Meyer’s report, “Japan’s
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not had leaders with such independent minds successively. They tended to
concentrate on economic policy and chose to follow the outline of U.S.
foreign policy. Only in cases where the United States did not protect Japan,
as seen in the 1973 “Oil Shock,” has the Japanese government been forced
to seek solutions independently.

Prime Minister Nakasone personally had a strong orientation toward
self-reliant foreign policy making. But even his search for autonomy
entailed inherent limitations, as outlined in this paper. Furthermore,
Nakasone’s premiership (November 1982—November 1987) was a time of
heightened tension in the new Cold War. Tokyo had few options but to
cooperate with, or basically follow, Washington.

Looking at the history, the desire to lessen military dependency on
the United States and to advance diplomatically strengthens when Japan’s
security environment becomes calm. It was true in the late 1960s and the
eyear 1970s, as this paper illustrates. It was also true for Prime Minister
Morihiro Hosokawa, who questioned the presence of U.S. troops in Japan
during the early 1990s following the end of the Cold War. In both cases,
subsequent tensions – a new Cold War from the late 1970s through the
1980s, and North Korean provocation in the 1990s – weakened any
orientation toward self-reliance.

With the limitation of Nakasone’s search for self-reliant diplomacy
and the lack of enthusiasm among other politicians to pursue it, Japanese
defense policy in the 1970s followed the path of conventional defense
buildup. In appearance, it looks as if one of the main characteristics of
jishūbōei has materialized. However, this defense buildup was undertaken
more in the context of cooperation with the United States, rather than
“autonomous defense.”

Under the Cold War, the conventional military reinforcement of
Japan, especially the blockade of the three straits (Soya, Tsugaru, and
Tsushima) and anti-Soviet submarine warfare, served both Japan’s own self-
defense and U.S. grand strategy against the Soviet Union. In other words,
Japan could concentrate on the improvement of self-defense of its territory,
while meeting its alliance obligations. On the one hand, Nakasone did not
have to worry seriously about a contradiction between his desire for
autonomy and the on-going defense cooperation with the United States.
The United States, on the other hand, did not have a reason to object to
jishūbōei as long as Japan’s military buildup was in line with U.S. strategy.

Role:”)
Meaning of Jishuboei Today

What is the possibility for jishuboei in Japan today? If jishuboei means autonomous defense, with cancellation of the Japan-U.S. alliance, it will not take place, for the reason cited earlier. But if it means Japan would be more responsible for its own defense and more self-reliant in foreign policy making, the possibility is not as negligible, because the present benign security environment may well provide the conditions for such a posture. Some may want to call China and/or North Korea a significant threat, but they are by no means as serious as the Soviet Union under the Cold War. Former Prime Minister Nakasone expressed to this author that the revival of jishuboei is quite possible as each state begins to seek a new identity after the Cold War, and Japan will finally follow its own path.54

On the other hand, there are some factors that discourage jishuboei. One of the negative factors for developing an indigenous defense for Japan is concerned with military and technological systemization by the United States. The JMSDF has already been incorporated into U.S. military strategy. Furthermore, if the missile defense initiative proceeds, Japan’s military could possibly become a part of the U.S. system.55

Another problem that might interfere in the recovery of a more active foreign policy is the lack of Japan’s political capital, or “philosophy” in Nakasone’s words. Every western country more or less depends on the United States for its security, but no other country is so denounced for being too obedient to the United States. Being less dependent on the United States militarily does not automatically guarantee that Japan will be more independent from the United States in foreign policy making. The political will and skill to realize diplomatic independence is most lacking.

Having said that, both the relevancy of territorial defense and the meaning of jishuboei are being challenged by a change in the security environment of present Japan. Unless China or other countries become a genuine threat, the priority of national security policy in the 21st century will not be territorial defense against direct aggression on Japan. For example, it could be logistical support for U.S. troops fighting against a third country, as the 1997 Defense Guideline presupposes. It could be Japan’s participation in missile defenses, shooting down missiles flying not only toward Japan but also toward the United States and other countries. It

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54 Interview by author on September 4, 2001.
55 As far as I know, Shintaro Ishihara is the only well-known political figure that wants to develop Japan’s own missile defense system.
could be Japan’s full-fledged participation in peacekeeping missions, say, in Southeast Asia.

In any case, the term “jishūkai” may no longer be relevant, because it implies defense of Japan’s own territory and the right to individual self-defense. The most significant issue, therefore, will be whether Japan is ready to expand its military role from exclusively territorial defense to more general use of force overseas. Revision of the Constitution will be unavoidable if Japan decides to do so.

If Japan does seek a more active military role overseas, an analysis of Nakasone’s jishūkai still offers two important questions about the nature of Japan’s defense and foreign policy in the first decade of the 21st century. First is whether Japan wants to develop a new military capability independently, under the U.S. lead, or in cooperation with countries in the region. Second is whether Japan is willing to realize a more self-reliant foreign policy by utilizing more positive use of force overseas. Both questions remain unanswered.
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The U.S.-Japan Security Relationship during the Late 1970s: The Road to the Ron-Yasu Era

Koji Murata

Introduction

This paper examines the U.S.-Japan security relationship during the late 1970s. Prior to the 1970s, the U.S.-Japan relationship in general was simple: a relationship between the ex-victor and the ex-vanquished, and between the protector and the protected in the Cold War structure and the international, free economy.

In the early 1970s, Japan experienced various international shocks, such as the two “Nixon Shocks.” The late 1970s was a kind of adjustment period for the U.S.-Japan security relationship, which was followed by the Ron-Yasu era during the 1980s.

This paper, in particular, focuses on two issues in the late 1970s: President Carter’s policy to withdraw U.S. forces from South Korea, and its impact on Japan; and the adoption of the Guidelines for U.S.-Japan Defense Cooperation in 1978.

Japan’s Defense Policy During the Early 1970s

Through the 1970s, Japan’s defense policy shifted from autonomous defense to defense cooperation with the United States.

In answer to the diminishing U.S. defense commitment to Asia, and based on his strong belief in autonomous defense, Defense Minister Nakasone Yasuhiro launched, in October 1970, the very ambitious Fourth Defense Building Program (Yojibo). Nakasone came into office as a well-known nationalist who had worn a black tie to every National Diet session.

1 For overviews of Japan’s foreign policy during the 1970s and the 1980s, see Iokibe Makoto, ed. Sengo Nihon Gaikushi (Postwar Japanese Diplomatic History) (Tokyo: Yuhikaku, 1999), especially chapter 4 by Nakanishi Hiroshi and chapter 5 by Murata Koji.
during the American occupation, because he believed the nation was in mourning until the U.S. occupying forces had left.

Prime Minister Sato Eisaku’s choice of Nakasone as the head of the Defense Agency was probably intended to prove Japanese willingness to tackle defense issues more seriously than before. Nakasone, however, went beyond what Sato wanted him to do. The original budget for *Yōjō* was 5,200 billion yen, twice the amount of the previous plan. Nakasone also tried to put more of the program’s emphasis on autonomous defense than on the U.S.-Japan security relationship.

Because of the huge budget, public opinion reacted negatively to Nakasone’s plan. Moreover, the oil shock of 1972 made it almost impossible to implement the plan. Also, when the United States moved to improve its ties with China, and then Japan established a diplomatic relationship with China, the strategic environment in East Asia seemed to become favorable to Japan. Thus, Nakasone’s ambitious defense plan suffered a setback. Even the downscaled *Yōjō* was not completely implemented.

By the time Saigon fell to the communists in April 1975, the Japanese government was faced with two important tasks: improving public support for its defense policy and keeping a credible U.S. defense commitment to Japan. Tokyo needed a post-*Yōjō* defense plan that would accomplish these objectives.

At the same time, the Gerald Ford administration felt the necessity to improve U.S. relations with its allies in Asia and to give Japan more responsibility in the region. Thus, Ford visited Tokyo and Seoul in November 1974. It was his first foreign travel, and it was also the first time a U.S. president had visited Japan. In the same year, the Japanese Emperor paid his first official visit to the United States.

Watanabe Akio, Professor Emeritus of the University of Tokyo, speculates that the center of U.S. policy towards East Asia shifted from China under the Nixon administration to Japan under the Ford administration, from Japan to China under the Carter administration, and from China to Japan again under the second half of the first Reagan administration.2

In December 1974, Miki Takeo came to power in Tokyo. Miki needed to restore public support for the Liberal Democratic Party (LDP) government following the Lockheed incident, in which former Prime

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2 Watanabe Akio, Asia Taiheiyo no Kokusai Kankei to Nihon [International Relations in the Asia-Pacific and Japan] (Tokyo: University of Tokyo Press, 1992), pp. 36-37.
Minister Tanaka Kakuei was arrested. The Miki cabinet moved to promote U.S.-Japan defense cooperation. Keeping a credible U.S. defense commitment to Japan was one of the objectives of Japan’s defense policy. In issues of defense, where ideologies can be highly divided, Miki, a liberal in the LDP, was relatively immune from attacks by the opposition parties.

In his visit to Washington in August 1975, Prime Minister Miki affirmed the so-called “Korea Clause” of the 1969 Sato-Nixon joint communiqué: “the security of the Republic of Korea is essential to the security of Japan.” In the following month, the U.S. Secretary of Defense James Schlesinger visited Seoul and Tokyo. Miki’s Defense Minister Sakata Michita, also known as a dove in the LDP, and Schlesinger agreed on promoting U.S.-Japan defense cooperation, which produced the first defense “Guidelines” in 1978. This will be examined in detail later.

In the meeting between Prime Minister Miki and Secretary Schlesinger, the former reiterated that the security of South Korea and the peace of the peninsula were important to Japanese security and said: “the geographical evidence is convincing, that ‘we feel it in our bones.’” The secretary replied: “even in the unlikely event of a change in administration, I do not expect any substantial change in our deployments or U.S. policy” in South Korea.3 Japan reconfirmed its security interest in Korea, and the United States seemed to become more involved in the security of East Asia again.

Under these circumstances, in December 1976, the Miki cabinet adopted the National Defense Program Outline (NDPO), which placed quantitative constraints on equipment levels. By adopting the NDPO, Defense Minister Sakata and Vice Defense Minister Kubo Takuya wanted to achieve their other objective: improving public support for Japan’s defense policy. In order to improve public support, given the experience of the failure of Yagiho, the Japanese government needed to limit its defense budget. In order to limit its defense budget, it needed to maintain a credible U.S. defense commitment. And in order to maintain a credible U.S. defense commitment, Tokyo felt obliged to express its regional security interests. Hoping to garner public support, Sakata also issued the second Defense White Paper in 1975 (the first had been issued by Defense Minister Nakasone in 1970).

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3 Memorandum of Conversation, subject: SecDef Meeting with Japanese Prime Minister, September 1, 1975, declassified under the Freedom of Information Act. The U.S.-Japan Relations Project, the National Security Archive, Washington, DC.
Kubo brought the concept of the Standard Defense Force to the NDPO. This concept meant that the force level should be standardized, so that the defense structure would be able to meet any major international changes. The NDPO assumed the following international conditions:

1) The U.S.-Japan Security Treaty will continue to be effectively maintained.
2) The United States and the Soviet Union will continue to avoid nuclear war and large-scale conflicts that could escalate into nuclear war.
3) Even if there is partial improvement in Sino-Soviet relations, this will not lead to the resolution of fundamental conflict.
4) There will continue to be moderation in Sino-U.S. relations.
5) A large military conflict will not break out on the Korean peninsula.4

The autonomous Yojibo was therefore replaced by the détente-oriented NDPO under the Miki cabinet. The Miki cabinet also established the ceiling for the defense budget as one percent of Japan’s Gross National Product (GNP).

Carter’s Korea Withdrawal Policy

Soon after adoption, however, the NDPO suffered a serious challenge from the United States. Contrary to Schlesinger’s prediction, President-elect Jimmy Carter reconﬁrmed his campaign promise to withdraw the Second Infantry Division from South Korea “after consultation with South Korea and Japan.”5

This withdrawal plan had two possible implications for Japan’s defense policy. First, it might produce instability on the Korean Peninsula and, therefore, might eliminate one of the international conditions that the NDPO had assumed. Second, Japan might have to take more responsibility for the security of Korea after the U.S. military withdrawal. It would destroy the public consensus on defense policy under the NDPO.

Vice Defense Minister Murayama Ko, Kubo’s successor, therefore expressed his strong opposition to Carter’s pullout plan. He said that, even

5 As for the details of Carter’s Korea withdrawal policy, see Murata Koji, Daitoryo no Zuetsu [Setback of the President] (Tokyo: Yuhikaku, 1998).
when South Korea became strong enough to defend itself, the U.S. military presence there would be “an absolutely essential prerequisite for retaining stability” on the peninsula. Foreign Minister Hatoyama Ichiro noted that “if you look at history, it is a fact that war occurred once in Korea because of withdrawal of U.S. troops there. Hence, our anxiety.” Prime Minister Miki, though more reserved, also mentioned “conventional Japanese thinking that drastic changes in the military balance on the Korean peninsula are unfavorable to peace and security there.”

At the end of 1977, Fukuda Takeo came to power. Fukuda was well known as a pro-Korean, hawkish politician. His reaction to Carter’s withdrawal plan, however, was calmer than expected. In an interview with Newsweek, Fukuda modestly stated that, under the existing circumstances, withdrawal would not be “particularly wise.” Unlike Miki, Fukuda, the conservative successor to the Kishi faction in the LDP, was relatively free from attacks by the right wing on this issue. Also, he was believed to have special relations with South Korean President Park Chung Hee.

More importantly, Japanese public opinion was divided over, and also indifferent to, U.S. troop withdrawal from South Korea. Washington realized this. A memorandum prepared for Vice President Walter Mondale’s trip to Japan noted the results of a Japanese public opinion poll, conducted in December 1976, on the subject of U.S. troops in Korea:

- About a third (34 percent) considered the U.S. troop presence in the Republic of Korea (ROK) important for peace and stability in Korea, but almost an equal proportion (31 percent) disagreed.
- Similarly, another 34 percent who thought that those troops were vital to Japan’s own security was matched by 32 percent who did not.
- Moreover, some 40 percent favored reduction, or even removal, of U.S. troops in Korea, as compared with 31 percent who preferred maintenance of the status quo in troop strength. On this issue, the ideological split between conservatives and the leftist opposition was particularly evident.

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7 Los Angeles Times, February 1, 1977.
9 Newsweek, January 10, 1977.
This somewhat ambiguous division of public opinion on an issue given widespread publicity in the media must be assessed against the low public concern over Korea. Among fourteen “diplomatic problems and international issues” listed, the Japanese ranked the “situation on the Korean peninsula” in the bottom third, with no more than five percent thinking of it as an “important issue for Japan.” Not surprisingly, therefore, sizable proportions (roughly one-third) did not express an opinion either on the value of the American troop presence for “preserving peace and stability on the Korean peninsula” or for Japan’s own security.10

Japan’s Defense Agency (JDA) began to realize that “it is not for Japan to be strongly opposed to the U.S. withdrawal policy, because it may cause criticism of Japan as a security free rider in the United States.”11 According to the JDA, Japan’s strong opposition to the withdrawal policy would induce Washington to pressure Tokyo to take more responsibility for Korea’s security.

In February 1977, Vice President Mondale visited Tokyo in order to explain the new administration’s basic policies. Mondale discussed the Korean issue with Prime Minister Fukuda.

With respect to Korea, the Prime Minister said that, in the Diet and elsewhere, he had taken the line that Japan had no right to intervene in a bilateral matter between the United States and the ROK. He had not done this only for domestic political purposes, but also because the ROK had indicated it did not wish Japan to give the impression that it thought the South Koreans incapable of defending themselves.

The Vice President said that the United States “understood and accepted the Japanese formulation that the issue was a bilateral one between the United States and the ROK. However, we did not view it that way. We continued, privately, to consider it a matter of the gravest importance to the U.S.-Japan relationship. The United States would continue to need Japanese opinions and advice in this matter.”12 Mondale further stated that

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12 Memorandum of Conversation, subject: Vice President Mondale-Prime Minister Fukuda Conversation II, February 1, 1977. Declassified under the Freedom of Information Act. The U.S.-Japan Relations Project, the National Security Archive, Washington, DC.
he “would challenge the Prime Minister's characterization of the matter as a bilateral U.S.-ROK issue.”

In short, while the United States wanted Japan to become more involved in the U.S.-ROK security issue, Japan again tried to keep its distance. The Japanese government was not yet ready to take any actual measures beyond expressing its security interest in Korea.

Of course, Washington did not expect Japan to assume any direct responsibility for the security of Korea. As a U.S. briefing paper to Mondale noted, the U.S. government was not “pressing Japan to undertake regional security responsibilities, recognizing that such a role would be politically impossible for Japan and extremely disquieting to most of its neighbors, including the Chinese and the Soviets.” Therefore, the U.S. government realistically expected “some possibilities for cost sharing” such as “joint use of logistical, communications, and other facilities, increased complementary missions and equipment and sharing the costs for the US military's Japanese labor force, which accounts for about $400 million out of total U.S. annual base operating costs of $1 billion.”

According to the earlier Status of Forces Agreement, the United States was expected to pay the personnel costs for Japanese workers on the bases and miscellaneous charges, such as electricity and water, but in 1978, the Japanese government agreed for the first time to share expenses for U.S. Forces in Japan (USFJ), including sharing welfare costs and social insurance premiums. Because of the rapid appreciation of the yen in the 1970s, however, payment of these fees became a strain. The Japanese contributed ¥6.2 billion the first year, but their share soon reached several billion dollars a year. Defense Minister Kanemaru Shin referred to the allocations as a “sympathy budget.” This arrangement continues to the present, although, after Japan's financial problems in the 1990s, the Japanese government expressed its hope for a reduction in the expenses.

Faced with the U.S. plan to withdraw from South Korea, Tokyo became insecure about maintaining a credible U.S. defense commitment to Japan. In this sense, the allocations were not a matter of “sympathy” but of insurance. Still, Japan considered the “sympathy budget” its contribution to the security burden of the Western camp. However, given the increased

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13 Ibid.

trade deficits with Japan, many Americans viewed it as less than a proper share of the defense burden. In order to avoid being criticized as a “free rider,” Japan still needed to find other ways to contribute to the Western camp.

Then, another U.S. briefing paper to Mondale correctly analyzed Tokyo’s difficult position over the concept of “consultations”:

The concept of “consultations” on force reductions in Korea, however, presents the government of Japan (GOJ) with unique and serious political problems. The GOJ considers it essential from the standpoint of its relations with the U.S. that it have an opportunity to exchange views fully well before any final U.S. decision. At the same time, it does not want a codeterminant role in any American withdrawal decision. U.S.-Japan consultations focused on the specific subject of Korean force levels would give opposition parties a tempting opportunity for political attack. Were the GOJ to “resist” U.S. withdrawal from Korea, in its consultations with us, the opposition would charge that the government was contributing to military tension in the area. If the GOJ seemed to accede willingly to U.S.-proposed withdrawals, the opposition could charge that the U.S. was in fact seeking to draw Japan into a more active military role. Either way, and even taking into account recent changes in Japanese public attitudes toward security issues, the GOJ believes that “consultations” on Korean troop levels would mean that the U.S.-Japan security relationship would once again become a political issue. We should indicate our willingness to keep in close touch with both the ROKG [ROK government] and GOJ on this important issue.\(^\text{15}\)

It was clear that the Japanese government was still caught between the public and the opposition parties, on the one hand, and the U.S. government on the other. Furthermore, Japanese citizens were divided over the U.S. troop withdrawal policy, and as Washington tried to implement the plan hastily, some became concerned about a U.S.

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withdrawal from Asia at large. In a public survey conducted in October 1978, only 21 percent of respondents expected that the United States would act on the U.S.-Japan Security Treaty in the event of an emergency, and 38 percent said it would not.16

As noted by Tae-Hwan Ok, a South Korean diplomatic historian: “As a result of Carter’s withdrawal policy, the Japanese realized that they could not rely on the United States for their national security. It led the Japanese to understand the importance of their Self-Defense Force (SDF), which had been ignored by the Japanese public. As a result, Tokyo could build up the Self-Defense Force without any public opposition.”17 (13)

His argument is not precise, however. Efforts to win wide public support for the SDF had already been undertaken by Sakata and Kubo before Carter’s Korea withdrawal policy. In fact, it was one of the reasons the Miki cabinet adopted the NDPO. Also, because Japan became more concerned about the U.S. defense commitment, it tried to promote U.S.-Japan defense cooperation. The pursuit of autonomous defense had already been abandoned when Nakasone had failed at promoting it.

**Defense Guidelines**

Murayama Ko, vice defense minister under Sakata, recalls: “In sum, the security treaty with the United States was already established. We only lacked the means to implement the treaty. In principle, it was very difficult (even for the opposition parties) to oppose introducing such a mechanism… My first question when I became vice minister was how Japan’s defense policy was linked with American policy... how, when, and where the United States would project its forces in the event of contingencies in Japan and how Japan would accept them. All of this was uncertain. Everything lacked real content.”18

The adoption of the “Guidelines for U.S.-Japan Defense Cooperation” in November 1978 was, therefore, a turning point for U.S.-Japan security relations. General Takashina Takehiko, then chairman of the SDF’s Joint Staff Council (JSC), said “the spirit has been restored in the body of the U.S.-Japan Security Treaty for the first time since 1960.”19

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18 Interview with Murayama Ko, Tokyo, April 12, 1996.
In this document, the United States explicitly pledged that it “will maintain a nuclear deterrent capacity, and the forward deployments of combat-ready forces and other forces capable of reinforcing them.” While “in principle, Japan by itself will repel limited, small-scale aggression. When it is difficult to repel aggression, Japan will repel it with the cooperation of the United States.” For this purpose, according to the document, the SDF “will primarily conduct defensive operations in Japanese territory and its surrounding waters and airspace” and the U.S. forces will conduct “operations to supplement functional areas which exceed the capacity of the JSDF.”

The guidelines further provided for U.S.-Japan joint exercises, intelligence exchange, and joint studies on three operational dimensions: prevention of aggression against Japan, response to military attacks on Japan (corresponding to Article 5 of the security treaty), and joint cooperation in case of conflict in the Far East (corresponding to Article 6).

The Soviet military buildup around Japan, which narrowed any perception gap between the United States and Japan concerning their common threat, was a strong impetus to agreement on these new guidelines. Even China, which until the early 1970s had been strongly opposed to the U.S.-Japan Security Treaty, condoned U.S.-Japan defense cooperation as a deterrent to the Soviet Union.

The guidelines assumed, however, that no legislative, budgetary, or administrative measures would be forced upon either government, and that matters concerning prior consultations, Japanese constitutional limitations, and the Three Non-Nuclear Principles would not be the subject of the studies and consultations.

Although Tokyo was eager to promote U.S.-Japan bilateral cooperation for the defense of Japan, it was very reluctant to discuss cooperation for the security of the Far East. Admiral Sakonjo Naotoshi, then secretary-general of the JSC, noted that cooperation for the security of the Far East, in which the United States was very interested, was an item “unrelated” to the original Japanese purpose: the defense of Japan. This paralleled Fukuda’s reserved attitude toward involvement in U.S.-South Korea security issues. The most important thing for Tokyo was to maintain a credible U.S. defense commitment to Japan on a limited defense budget. Also, the failure of the Mitsuya Kenkyu in the mid-1960s still lingered in the minds of senior JDA officials, such as Kubo. More

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importantly, Tokyo could not overcome the bureaucratic disputes over implementation of the Guidelines. The late Nishihiro Seiki, then director of defense policy for the JDA, noted: “In the Guidelines, we poorly separated the matters on Article 5 from those on Article 6. The latter is within the jurisdiction of the Ministry of Foreign Affairs…It is difficult for me to imagine the contingencies on Korea which will not lead to orders for defense preparations in Japan.”21

Maruyama also recalls that, “although we should have promoted the matters on Article 6 at that time, the JDA had to respect the initiative of the Ministry of Foreign Affairs.”22 Asao Shinichiro, then director-general of the Ministry of Foreign Affairs’ North American Bureau, explained, “On the transfer of the SDF or the U.S. military, for example, the Ministry of Transportation should be involved. We could not call a meeting with all relevant Ministries and Agencies from the beginning.”23

Certainly, the guidelines advanced strategic thinking within the Japanese defense community and opened the way for wider U.S.-Japan defense cooperation. However, they also clarified the domestic and international limitations on Japan’s defense policy. For the United States and other western countries that wanted additional countries to bear a fair share of security burdens, Japanese defense efforts seemed insufficient. Since the United States was spending more than 5 percent of its GNP on defense, and the West European countries spent 3-5 percent, Japanese spending, at less than 1 percent, appeared inadequate.

The guidelines brought two unexpected efforts. First, on the U.S. side, by understanding the reality of the SDF through the lens of the guidelines, the Pentagon became less concerned about the possibility of a revival of Japanese militarism and began to seek Japan’s defense buildup in more assertive ways.24

Second, after the adoption of the guidelines, the new Cold War became quite serious, even for Japan. Tanaka Akihiko, professor of international relations at the University of Tokyo, noted that, “although the guidelines were not adopted for the new Cold War [per se], this document provided the framework ‘to fight it.’”25

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21 Interview with Nishihiro Seiki, Tokyo, November 16, 1995.
22 Interview with Maruyama.
23 Asahi Shimbon, September 3, 1996.
The Road to the Ron-Yasu Era

In January 1981, Ronald Reagan came to power in Washington, and in November 1982, Nakasone Yasuhiro in Tokyo. They established solid and cooperative relations, the so-called “Ron-Yasu” relations.

Some scholars are very critical regarding what Nakasone really achieved during the Ron-Yasu era. Edward Olsen, professor of the Naval Postgraduate School, wrote: “While Nakasone clearly deserves some kudos on trade issues, the level of praise accorded him on defense issues is excessive. He neither tried to do, nor achieved, as much as he is given credit for on the security front. Nakasone was, however, excellent at public relations. He was an outstanding front man for Japan.”

His success during the prime ministership certainly resulted from his excellent performance in diplomacy. Performance as well as substance is often very important in diplomacy.

For example, in January 1983, Prime Minister Nakasone chose Seoul for his first visit abroad. Surprisingly enough, it was the first time a Japanese prime minister had paid an official visit to South Korea. Nakasone and South Korean President Chun Doo Hwan declared that a new era for Japanese-South Korean relations had begun. The Chun administration had asked Tokyo to provide a total of $6 billion in economic aid to South Korea in the context of Japanese-South Korean security cooperation. The two leaders reached a compromise under which Japan would provide about $4 billion in aid and Seoul would withdraw its claim for security cooperation.

Two months later, Nakasone visited Washington and confirmed that the U.S.-Japan alliance was sound. He repeatedly used the term “alliance,” which had been a kind of taboo for a long time in Japanese politics.

The joint U.S.-Japan study on the defense of sea lanes under the guidelines had already begun at the end of 1982. The Nakasone cabinet had decided not to apply the Non Weapons Export Principles to the United States. Nonetheless, given the large-scale U.S. trade deficit with Japan — $18 billion in FY 1981, the highest in history — the U.S. Congress asked Japan to share more of the burden for the common defense.

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Nakasone tried to avoid criticism to some extent by granting new economic aid to South Korea, the front line of the Cold War in East Asia. During his visit to Washington, Nakasone also called the Japanese Islands an “unsinkable aircraft carrier” against the Soviet Union.

Although Nakasone’s assertive attitude was welcomed in Washington, his rate of support in the Japanese cabinet decreased from 38.6 percent in January 1983 to 34.5 percent in February 1983. The Japanese government was still caught between strengthening U.S.-Japan security ties and maintaining public support at home.

Still, Nakasone continued to be assertive about the security issues. In May 1983, he attended the summit meeting in Williamsburg and strongly supported the Reagan administration for the nuclear disarmament negotiations with the Soviet Union, noting that the “security is inseparable.”

On September 1, 1983, Korean Airlines (KAL) flight 007 from New York to Seoul was shot down by the Soviet air force for violating Soviet airspace. While Moscow kept silent about the incident, Japan’s SDF monitored the communications records of the Soviet air force. Although the SDF wished to avoid making its monitoring capability public, Nakasone and his Chief Cabinet Secretary Gotoda Masaharu decided to provide this evidence to the United States. As a result, Moscow could not help but admit to the brutal incident. In response, the U.S. Congress passed a resolution of appreciation for Japan.

In April 1985, the Nakasone cabinet decided to accept two squadrons of F-16 strategic bombers at the Misawa base as a countermeasure against the Soviet military buildup in East Asia. In September 1986, Nakasone also decided to join the research for the Strategic Defense Initiative (SDI), President Reagan’s favorite plan.

Japanese domestic politics also became more stable. In July 1986, the LDP won 304 seats and 142 seats, respectively, in the Lower and the Upper Houses. As a consequence, Prime Minister Nakasone’s term of office was extended for one more year. In January 1987, Nakasone succeeded in doing away with the defense budget ceiling at 1 percent of GNP, which had become a symbol of Japanese reluctance in defense efforts.

Nakasone, who had failed to promote autonomous defense during the early 1970s, realized the importance of promoting Japanese defense capabilities through the framework of the U.S.-Japan security relationship. Washington was no longer concerned about the revival of Japanese militarism. The emergence of the new Cold war worked as an important international factor for the Nakasone cabinet to promote defense.
cooperation with the United States. Japanese domestic politics also became more stable during the Ron-Yasu era.

Furthermore, the Reagan administration took a very practical approach in asking Japan to increase its involvement in defense efforts. In particular, Secretary of State George Shultz played a very important role. As an economist, he believed that “A strong Japan served from America would be unnerving to Asia and the rest of the world. The other side of the coin is that Japan, through its intense competitive challenge, can help keep the massive potential and achievements of the American economy declining through our own complacency.”

Nonetheless, the Japanese experiences in the late 1970s were still extremely important. Carter’s Korea-withdrawal policy, which eventually failed, reminded many of the Japanese that the security of Korea was important to that of Japan. The adoption of the Guidelines provided the political framework for promoting U.S.-Japan security cooperation during the Ron-Yasu era. The late 1970s functioned well as a transitional period for Japan’s defense policy.

Still, it should be noted that it took about twenty years for the Japanese government to revise the original guidelines of 1978 to the new one in 1997. Entering into the 21st century, Japan is still in serious economic troubles. Now, the Japanese sense of complacency should be critically reexamined.

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U.S.-Japan Relations and Japan’s Industrial Policy toward its Electronics Sector

Marie Anchordoguy

Introduction

For decades following the end of World War II, Japanese leaders pursued a series of industrial policies with the goal of transforming Japan into a global player in the strategic, rapidly expanding electronics sector. These efforts were successful in large part because of the peculiar nature of U.S.-Japan relations during the Cold War. With a single-minded focus on containing communism, the United States viewed Japan as what former Prime Minister Yasuhiro Nakasone once referred to as “an unsinkable aircraft carrier.” In return, the United States showed a great deal of tolerance with respect to Japanese policies that protected and promoted Japanese industry at the expense of American companies. While insisting on fair trade on paper, the United States seldom backed up its demands with full sanctions.

In the mid 1980s, as the communist threat receded and U.S. industry felt the brunt of Japanese competition, the U.S. government made an effort to counter Japan’s strategic trade policies. However, policy makers found that they lacked the necessary trade laws, tools, and experienced negotiators to overcome Japanese foot-dragging. Over time, America did become more knowledgeable about Japanese practices and more vigilant about policies that would harm American interests. Faced with a less tolerant American ally, Japanese policy makers found it far more difficult to exploit traditional industrial policy tools.

The emergence of a less tolerant ally, combined with the many challenges of targeting cutting-edge technologies, resulted in a series of policy failures in the late 1980s and the 1990s that discredited the institutions in charge of Japan’s industrial policies. However, in most cases, the more aggressive U.S. trade tactics in the 1980s came too late, because key U.S. sectors had already lost competitiveness. This pattern of giving priority to security over trade issues continues in U.S.-Japan relations, as well as U.S. relations with other countries, such as Korea, Taiwan, and China since the 1990s.
This paper briefly examines several industry cases to demonstrate how Japanese leaders used a range of policies and institutional arrangements in different industries to maximize Japanese industrial interests at the expense of those of the United States. It also shows how America’s response in this “trade war,” initially ineffective, eventually developed more sophistication.

Analysis of the color television dumping case in the 1960s and 1970s reveals that Japan’s private sector was the primary actor involved in exploiting the U.S. government’s prevailing concern with the defense relationship. The telecommunications case illustrates how Japan’s state and business leaders—knowing the United States would not firmly impose sanctions to increase foreign sales—delayed and limited procurement of foreign goods despite a bilateral procurement agreement in the late 1970s and ongoing trade negotiations aimed at opening up the market. In the computer software case, Japanese firms and the Japanese government took advantage of IBM’s vulnerability as a long-term target of antitrust investigations. Only in the software case did the U.S. government have the tools— in this instance, strong intellectual property laws—ultimately to counter Japan’s policies.

In the case of the semiconductor industry, the Japanese government, using strategic trade and industrial policies to exploit the U.S. priority on the broader alliance, successfully tilted the playing field in the domestic firms’ favor, helping to undermine U.S. producers. However, once the U.S. government deemed those policies a threat to national security, it pressured Japan to stop dumping and to open up its market, though it was too late to help memory chip makers.

The supercomputer case shows how the vertically-integrated structure of Japanese firms, which allowed them to cross-subsidize their supercomputer division with profits from other divisions, made it impossible for small one-product firms, such as Cray and Control Data Corporation (CDC), to compete, even though their machines were recognized worldwide as superior in terms of price and performance. Once the U.S. government viewed supercomputer competition as a threat to national security, it applied pressure on Japan and was successful in increasing Japanese purchases of American supercomputers. However, the pressure was too little too late and could not effectively counter the different organizational structures of Japanese and American supercomputer companies.

While the focus of this paper is on the period before the Cold War ended, the conclusion briefly addresses why Japanese state and corporate exploitation of the U.S.-Japan alliance has been relatively ineffective since the 1990s.
The Color Television Case

U.S.-Japan trade friction regarding color television sets in the 1960s and 1970s is a well-documented case of how Japanese firms and Tokyo took skillful advantage of the priority given to the defense alliance. Using private-sector collusion to undermine the competitiveness of U.S. television firms was all the more effective because it occurred at a time when the U.S. government and U.S. firms were still relatively ignorant of how Japan’s system of capitalism worked, and when the television industry was not deemed critical to national security.1 The details of the actions are available elsewhere; suffice it here to provide a brief overview of how Japan’s private sector, with MITI protection and guidance, was able to collude and to price televisions high at home and below-cost abroad in ways that dramatically increased their share of the U.S. television market.

Producers of Japanese television sets held regular monthly meetings from 1964 through at least September 1974, in order to exchange information and coordinate color television strategy and prices.2 The firms set domestic and international prices and fixed distributors’ margins and rebates at those meetings.3

In order to ensure that market share abroad was gained at the expense of foreign firms rather than at each other’s expense, minimum export prices were managed by the Council for the Export of Televisions, and agreements on which makers would supply which dealers, including formal registration of such buyer-supplier relationships, was managed by the Japan

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3 Komiyi, Takeuchi, and Kitahara, p.28.
Machinery Exporters Association (JMEA).4 These two associations created the “five-company rule”, which required that each exporter specify five U.S. dealers as its only and exclusive customers. Any changes in buyer-supplier relationships required approval by the TV Export Examination Committee of the JMEA. Member firms were required to notify the JMEA about each specific television shipment, providing information on the buyers and suppliers involved, the type and quantity of televisions, and both the domestic and export price agreed upon.5

Aware that the U.S. government and firms suspected dumping, Japan’s Fair Trade Commission (JFTC) asked the television makers in 1966 why domestic prices were so much higher than export prices, and warned them to stop price fixing; however, the firms ignored the warning.6 The JFTC then required the firms to submit to MITI a justification of why exported color televisions (65,000 yen) were less than half the price of domestic ones (149,400 yen). The firms argued that the 84,400 yen price difference was due to differences in qualities of the cabinets and other things (15,000 yen), commodity taxes in Japan (14,000 yen), various distribution costs, more advertising, rebates to dealers and the like.7

In March 1971, the U.S. government ruled that Japanese makers were dumping, but assessed no dumping penalties. There have long been allegations that the Japanese government pressured President Nixon not to take firm action against the dumping, but this has not been proved.8 Unable to get redress on dumping, U.S. producers turned to other legal actions, such as antitrust suits.

To calm the furor, Japanese makers raised prices in the United States in 1974, reducing the gap between domestic and foreign prices, but export prices continued to be substantially below production costs and domestic prices. The rise in export prices also turned out to be a sham. The makers set an official “minimum price” high enough to avoid dumping duties, listing this price on customs forms, invoices, and in all accounting records. However, the U.S. dealers through which the firms distributed their products sold the televisions at prices much lower than the official “minimum” prices. Japanese television producers made up the difference through an elaborate system of kickbacks to the dealers. That is, in order to

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5 Yamamura and Vandenberg, p.259; Schwartzman, The Japanese Television Cartel.
continue to gain market share at the expense of U.S. makers, Japanese firms provided covert payments to U.S. retailers to make up the difference between the “minimum” prices and the actual prices.9

Legal actions continued. For example, Zenith charged that Japanese television exporters were benefiting from the rebate of a national commodity tax and that the U.S. Treasury Department should thus impose a countervailing duty. The Treasury Department sat on the suit for four years and rejected it in 1976. Zenith appealed to the U.S. Customs Court, which ruled in Zenith’s favor in 1977.10 Documents recently declassified do not provide details, but they convey the executive branch’s serious concern that this suit would disrupt the broader bilateral relationship. State Department documents discuss the issue:

“During the first nine months of 1976 imports of color television receivers from Japan nearly tripled over the 1975 level, and U.S. industry sources report that the Japanese share of the U.S. market rose from 18 to almost 35%. U.S. industry and labor groups affected have pursued a variety of actions to reduce the stream of imports. These actions have caused the Japanese considerable anxiety. The most troublesome currently is a suit by Zenith in U.S. Customs Court seeking to reverse a 1976 Treasury decision not to impose countervailing duties against GOJ (Government of Japan) rebate of the commodity tax to exporters of color television and consumer electronics products, affecting trade of about $1.5 billion. The decision is expected shortly, but the exact timing is not known. There is deep concern at Treasury that the decision will be in favor of Zenith. Although we are reasonably confident of winning an appeal, in the interim importers of these products would have to post a bond equivalent to the anticipated 15% duty. The USG has been considering possible options to avoid the disruption that would be caused by the bonding procedure, such as seeking a stay of

(sic) submitting emergency legislation to the Congress. None of these options look particularly promising.”

“Talking points” for Vice President Mondale’s visit to Japan in 1977 advised him to convey U.S. concern about this court case. Mondale was prompted to say “we share your concern about a possible unfavorable outcome in the Zenith television case now before US Customs Court. The executive branch is doing everything it can to persuade the Courts as to the appropriateness of the Treasury ruling on the application of the US countervailing duty law. We are also considering what steps might be taken to avoid the disruption of established trade if the Court does not uphold the Treasury interpretation.”

In another “talking point,” Mondale was to explain that private sector lawsuits against Japanese television exporters “do not reflect the views of the executive branch.”

During this period, the Japanese government repeatedly sought a high-level political solution to the problem rather than a legal solution. State Department documents suggest “on the Japanese side many viewed the duties (referring to talk of the Customs Court assessing countervailing duties) as an attempt to ‘get’ Japan. We (in the State Department) believe it is this reaction that prompted the GOJ to seek a political solution.”

Around this same time, the Justice Department started investigating customs fraud and covert rebates by Japanese firms to U.S. dealers. In May 1977 President Carter announced an “orderly marketing agreement” with Japan, which limited Japanese television exports to the United States. However, this was too little too late.

In December 1979, Treasury officials suggested a settlement of $50 million for the countervailing duties and fraud claims. In April 1980, the Commerce Department, taking over for the Treasury Department,

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11 Department of State, Briefing Paper for Vice President Mondale’s visit to Japan, Talking points on legal steps taken against Japanese TV and Steel Imports,” Record #82246, January 1977.
12 Department of State, Briefing Paper for Vice President Mondale’s visit to Japan, Talking points on legal steps taken against Japanese TV and Steel Imports,” Record #82246, January 1977.
13 Department of State, Briefing Paper for Vice President Mondale’s visit to Japan, Talking points on legal steps taken against Japanese TV and Steel Imports,” Record #82246, January 1977.
announced a $75 million settlement just two days before Prime Minister Masayoshi Ohira visited the United States. This was about half of what the Commerce Department originally expected to get and just 10% of what the importers owed under the court decisions related to rebates on national commodity taxes and falsification of invoices. Intrigue still surrounds the amicable settlement, because the evidence against Japanese producers was substantial.

In retrospect, it seems clear that U.S. television producers might have been driven out of the television industry at some point anyway. Technological advances by Japanese makers, such as using integrated circuits and single circuit boards sooner than their American counterparts, gave Japanese firms cost advantages above and beyond the benefits they accrued due to strategic dumping. Nevertheless, the U.S. government was working behind the scenes in ways that countered the interests of U.S. television producers. Moreover, the swift and severe dumping of Japanese products resulted in dramatic market share losses, giving U.S. companies little time to respond. Dumping was only sustainable because the U.S. government did little to protect the economic interests of domestic television makers.

One explanation for this laissez faire attitude is that the United States gave priority to defense over trade relations. The television dumping case reveals extreme toleration of predatory policies in the 1960s and 1970s, during an intense period of the Cold War. It shows how the private sector not only used collusion and price fixing in ways that undercut U.S. industrial interests but also skillfully exploited the fragmentation of U.S. interest groups, pitting U.S. makers against each other and U.S. retailers against U.S. television producers.

Meanwhile, the long distraction provided by dumping gave Japanese firms time to build up strong technological and manufacturing skills. Building a competitive consumer electronics industry was critical for creating demand to kick-start a domestic semiconductor industry.

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The Telecommunications Case

In the telecommunications industry, Nippon Telegraph and Telephone (NTT) labs were modeled after AT&T’s Bell Labs when the telecommunications giant was established in 1952, with substantial Occupation input into the process. NTT got off to a good start, in part, because AT&T Bell Labs engineers on General Douglas MacArthur’s staff “taught us a lot about research on telecom,” explained the head of NTT’s data communications laboratory in Yokosuka.19

From the beginning, the goal of NTT and its family of private firms, which included NEC, Fujitsu, Hitachi, and Oki, was to import first and then to reverse-engineer foreign technology as quickly as possible.20 Japanese corporate and state leaders did not want this strategic industry to be dependent on foreign technology.

NTT and the major telecom firms had no choice but to import most technologies, especially from AT&T and Siemens, for the first 25 years of the postwar period.21 The U.S. government’s view of Bell Labs as a producer of international public goods, as well as its overall emphasis on the defense relationship with Japan, nurtured an environment in which NTT researchers frequently visited AT&T. In 1966, a formal agreement between the two firms made regular visits possible, allowing NTT researchers to learn much more from Bell Labs.22 Not surprisingly, an electronic switch developed by NTT’s lab in 1966 was a deddo kopi (dead copy) of Bell Labs’ 1-ESS switch.23 Neither AT&T nor the U.S. government complained about this “borrowing.”

In the late 1970s, NTT and its family firms achieved their two primary goals – eliminating back orders for phone installations and instituting direct dial throughout the country. The U.S. government, facing growing trade deficits with Japan, started pressuring the Japanese government to force NTT, which had a procurement budget of some 600 billion yen ($2.75 billion) in 1979,24 to purchase foreign products. The U.S. government felt the U.S.-Japan

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19 Interview of head of one of NTT’s national labs, December 5, 1987.
20 Interviews of head of an NTT lab, December 5, 1987; former NTT official, April 13, 1993; and former top-level NTT official, November 14, 1996.
22 Nakagawa, NTT Gijutsu Shiryōkan, p.119, 138; NTT, Dōden 10 Nen no Ayumi, p.78; interview of former top-level NTT official, November 14, 1996.
23 Nakagawa, NTT Gijutsu Shiryōkan, p.118.
24 Marie Anchordoguy, “Nippon Telegraph and Telephone Company (NTT) and the Building of a Telecommunications Industry in Japan,” Business History Review.
relationship was not reciprocal, and anti-Japan feelings were growing in the United States, but the “president had made a commitment to Prime Minister Fukuda to avoid ‘shocks’ in the U.S.-Japan relationship.”

According to recently declassified State Department documents, in dealing with various trade issues, including telecommunications procurement, the U.S. government took a weak stance. The State Department merely hoped “the Japanese side would react frankly to our (U.S. government) views as soon as possible. He (U.S. Ambassador to Japan Mansfield) hoped the GOJ (Government of Japan) would realize that short-term one shot purchases to reduce its surpluses were not enough to reduce pressure in the U.S. Rather there was a need for a clear demonstration of a Japanese willingness to change.”

With an opponent unwilling to apply sanctions seriously, Japanese leaders found it very easy to postpone action on the U.S. government’s request for a procurement agreement. One delay tactic was to argue that public corporations such as NTT were excluded from broader government procurement agreements. Another tactic was to argue that MITI was Japan’s major negotiator on trade – through the Trade Facilitation Committee, a U.S. Commerce Department-MITI committee established in 1978 – and MITI had no authority over NTT, which was under the Ministry of Post and Telecommunications.

NTT President Akigusa Atsujii, who was strongly opposed to an agreement, said at one point that NTT would only buy rags and buckets from the United States. He balked at the notion of creating an open bidding system, arguing that it was not practical and that it would ruin the NTT family of firms, which had led to high quality, low cost, and mass manufacturing. He also said it would result in leaks of technical information to competitors and would be too expensive to run.

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volume 75, autumn 2001, p.536.
25 Recently declassified telegram that reports on a meeting in Washington D.C. between Ambassador Togo of Japan and Assistant Secretary Holbrooke, State Department, Record no. 91307, November 13, 1977.
26 Recently declassified telegram that reports on a meeting in Washington D.C. between Ambassador Togo of Japan and Assistant Secretary Holbrooke, State Department, Record no. 91307, November 13, 1977.
27 Department of Treasury inter-office memorandum to Assistant Secretary Leland from Acting Deputy Assistant Secretary John D. Lange, regarding how U.S.-Japan Trade Policy is Made, September 9, 1981 (no record number given); Department of State, “Government Procurement” Briefing Memorandum, Record #87159, September 1978; Department of State, “Joint U.S.-Japan Trade Facilitation Committee” Briefing Memorandum, Record no. 87152, September 1978.
Eventually U.S. pressure did lead to a limited agreement. Japanese companies such as Matsushita and Toshiba, which were left out of NTT’s family of firms, backed the U.S. demands. They were thrilled that the United States was demanding just what they also wanted: a break-up of the family’s stranglehold on NTT’s procurement. Due to this domestic and foreign pressure, the LDP and the ministries made a procurement agreement with the United States. It came into effect on January 1, 1981 and formally required that NTT procurement be conducted in a fair and open manner. NTT, however, continued to issue very detailed design and standard specifications, which, in effect, only allowed its traditional suppliers to meet its needs.

From Japan’s perspective, the agreement was largely aimed at appeasing America by introducing the kinds of processes the United States demanded. The opening of the procurement market did lead to lower costs for NTT. For example, NTT was able to buy fax machines at half the price it had paid in the past. However, since most of the products were still developed jointly by NTT labs and family members, the large NTT family members continued to get the bulk of NTT orders after the procurement agreement and even after the partial privatization of NTT in 1985. In 1981, the first year of open procurement, 92% of NTT purchases still came from family members. In fact, large NTT family makers actually increased their sales to NTT after “privatization,” selling 40% more to NTT than they had in 1984, the year before privatization. Only small and medium-sized family firms experienced significant cuts in demand from NTT.

The U.S. government spent significant political capital pressuring Japan to open up its telecom market but with few results. In 1980, Japan imported some $151 million in telecommunications equipment from the United States and exported over $2 billion to the United States. In 1984, Japan’s trade surplus in telecommunications equipment was some $4.8 billion. The surplus has dropped significantly since the 1990s but was still some $1.4

29 U.S. Department of Commerce, Briefing Memorandum from Under Secretary for International Trade regarding an upcoming meeting with NTT’s President Hisashi Shinto, Record no. 28174, September 19, 1981.
billion in 2000.\textsuperscript{33} NTT’s closed proprietary standards continue to protect much of the market even today. The Japanese government continues trying to appear to meet U.S. demands for increased competition without really meeting them. A recent example is the so-called “break-up” of NTT in July 1999, in which NTT was broken up into three firms that were placed under an umbrella holding company structure. This “fake” break-up did not open the market to increased competition. Yet, Japanese government leaders could tell the U.S. government that they had broken up NTT.\textsuperscript{34}

**Computer Software Case**

In order to promote a domestic industry in computer mainframes and computer software, Japanese state and corporate leaders were able to take advantage of the U.S. government’s preoccupation with its long-term antitrust case against IBM. Japanese firms essentially copied IBM’s operating system (OS) and applications software from the late 1960s until the early 1980s. This was possible in large part because, in 1969, under pressure from the U.S. Department of Justice’s antitrust investigations, IBM unbundled (-priced and sold as separate products) its hardware and software. This unbundling allowed Fujitsu and Hitachi, two of Japan’s top-three hardware makers, to take an IBM-compatible route.

Most importantly, while tied up with antitrust concerns, IBM was not in a position to complain about small, foreign competitors copying its software. Fujitsu and Hitachi modified IBM’s OS standard enough so that it would not be compatible with other IBM-based machines. And they continued to bundle their hardware and software, locking users into their standard. This allowed MITI and the makers to focus on hardware, which it could legally reverse-engineer, and also enabled the broader strategy of competing through scale economies and manufacturing expertise.\textsuperscript{35}

MITI did not shift its attention from hardware to software until the mid-1980s, after the FBI caught Japanese firms, desperate to get information on IBM machines, stealing IBM’s software in a sting operation in the summer of 1982. IBM, freed from the shackles of a decades-long antitrust case, cooperated with the FBI. Japanese computer firms could no longer copy IBM software for free. They now had to pay huge annual licensing fees to IBM.

\textsuperscript{33} MITI, ed. 	extit{T幼稚Hol} (Tokyo: Okurasho Insatsu Kyoku, annual.)
\textsuperscript{34} Interview of former MITI official, October 18, 1999.
From then on, the firms tried to diversify the standards they relied on, especially their dependence on the IBM mainframe standard.

To cope with this software crisis, the Japanese government organized several projects to try to reduce Japanese dependence on IBM. The state promoted the UNIX standard, an open nonproprietary standard, in the Sigma Project (1985-1990). A new Japanese operating system standard, called TRON, was developed in a private-sector project that started in 1984 and continues today. Most Japanese experts at the time agreed that TRON was not a major technological breakthrough and that, even if it were an improvement, it would be difficult to get the standard accepted internationally, since most computer users already had huge sunk investments in IBM or UNIX-based machines.

The Japanese government threw its weight behind TRON, having the Ministry of Education announce in 1987 that public schools would install TRON-based PCs. However, the government ultimately reversed this decision. MITI officials and Professor Ken Sakamura, the University of Tokyo lecturer who heads the project, say pressure on MITI from the U.S. Trade Representative nixed the plan. While U.S. pressure undoubtedly contributed to abandonment of the idea, this was also a case of Japanese industry leaders using _gaizen_ (foreign pressure) as an excuse for rejecting a proposal they considered doomed to failure.36

Unable to force TRON onto Japanese students, MITI proposed a new software law that would protect software intellectual property for only fifteen years, not the fifty years provided by international copyright law. Since the IBM Industrial Spy Incident in the summer of 1982, the U.S. government had been pressuring Japan to provide clear legal protection to software. The United States and the Ministry of Education’s Cultural Affairs Agency, which oversees Japan’s copyright law, wanted software included in the copyright law as it was in the United States and Europe.37 MITI’s proposed new law would have given it control over software protection and granted it the authority to require a firm to license its software to another company when MITI deemed it in the national interest or when a company had substantially altered the original software and wanted to sell it as a new product. “We want to prevent firms from having to completely rewrite software that already exists,”

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36 Interview of Inose Hiroshi, Professor Emeritus of Tokyo University and one of Japan’s top computer industry experts, July 14, 1994.
explained MITI’s Kawano Hirobumi.\textsuperscript{38} One of Japan’s top computer industry magazines, \textit{Kompyutopija}, cited an expert acknowledging that MITI’s proposed law was aimed at helping Japanese firms copy foreign software programs without paying high licensing fees.\textsuperscript{39}

Given the industry’s weakness, it is no surprise that MITI was trying to shift the playing field to their advantage, as well as to gain control over software protection in the future. However, with the U.S. government and firms now monitoring and objecting to MITI’s maneuvers, MITI and the Japanese industry lost the battle.\textsuperscript{40} At a time of global trade tensions over Japan’s rising trade surpluses, MITI could not get away with protecting software in the Japanese market for less than one-third the time it was protected in other advanced industrialized nations. Japan’s Parliament passed a bill that included software in the copyright law, making Japan’s software protection similar to that of the United States and Europe; the revised law came into effect in 1986.\textsuperscript{41}

In 1993, MITI, more desperate than ever, again tried to modify the way software was protected in Japan. This time it suggested a revision of the copyright law in ways that would make reverse engineering of software legal. When this failed, it tried to establish a voluntary quality assurance program for software, a move U.S. makers argued would require divulging proprietary secrets to get a stamp of approval. American firms and its government strongly opposed both measures, so the Japanese government backed off.

The software case shows how, from the 1960s up until the early 1980s, Japanese firms and the government built up a viable software industry in part by exploiting U.S. antitrust policy and its unwillingness to take a strong stand on trade issues in fear of upsetting the broader relationship. However, once IBM was freed from antitrust investigations and the U.S. government and firms started to understand and monitor Japanese firms’ behavior, these strategies were no longer effective. While in most cases the U.S. government lacked the tools to deal effectively with trade disputes, in software, strong intellectual property law enabled the U.S. to counter Japanese strategic trade policies.

\textsuperscript{38} \textit{Business Week}, February 13, 1984, p. 110a.
\textsuperscript{39} \textit{Kompyutopija}, February 1984, p. 53.
\textsuperscript{40} Cable titled “Summary Report of High Tech Industrial Policy Talks with GOJ,” from Clyde Prestowitz, Department of Commerce to Undersecretary Lionel Olmer visiting the U.S. Embassy in Beijing, record #74831, April 1985; Telegram from U.S. Embassy Tokyo to Department of Commerce Undersecretary Lionel Olmer, record #79620, January 20, 1984.
Semiconductor Case

The semiconductor case shows the evolution of tradeoffs between security and industrial issues over time, with security getting priority in the 1960s and 1970s and industrial interests gaining greater emphasis starting in the mid 1980s.

When Texas Instruments applied for patents in Japan, in 1960, and for a wholly owned subsidiary in 1964, MITI and the electronics makers called it the beginning of the “TI Tornado” (TI senpuu) and made analogies between it and the arrival of the Black Ships that contributed to the end of the Tokugawa era.42 There was no thought of allowing TI free reign, which would clearly devastate two industries MITI deemed strategic – the chip and computer industries. The question was what type of deal MITI could cut with the U.S. giant.

MITI knew that Japanese firms would ultimately need TI’s patents to produce legally, but there was no rush. To aid domestic firms that desperately needed time to build up economies of scale and technological expertise, MITI initially refused to acknowledge the patent and subsidiary applications.43 It also started several chip R&D initiatives, which Tarui Yasuo, a member of MITI’s ETL lab who participated in one such project (and later headed the VLSI project), admitted were aimed at reducing duplication of effort through specialization. About an early project, he said, “frankly [much of the project’s aim is] to avoid patents that cover procedures developed in the U.S.”44 The U.S. government did not complain about these delay tactics.

MITI knew it could afford to delay action on TI’s application but not forever. In August 1966, MITI said that, if TI would open up its patents, MITI would allow a 50-50 joint venture with a local firm, though the venture would have to restrict itself to no more than 10% of Japan’s total semiconductor production for three years. TI did not respond immediately, though it feared that putting off entry would allow Japanese firms to advance quickly. In November 1966, U.S. Commerce Secretary

44 Tarui Yasuo, “Japan seeks its own route to improved IC techniques,” Electronics, December 13, 1965, p.90-91.
John Conner complained to MITI that its foreign investment restrictions were counter to the spirit of various treaties. Japan’s government countered that the treaties allowed such restrictions when foreign currency reserves are low, which they were at the time (1966), and that IMF and OECD regulations allowed such limits in certain cases. The U.S. government backed off.

If MITI had allowed TI unrestricted entry, there is no question that it would have overtaken the industry. Japanese companies were charging three times the U.S. price for a chip because their yields were much lower – under 10% compared to 25% for U.S. makers. TI’s entry also would have boosted the royalty fees (6-7%) Japanese firms were already paying Western Electric and Fairchild for semiconductor technology; so far, they had been able to ignore TI’s patent rights.

In the end, domestic consumer electronics companies – the primary users of semiconductors – pressured MITI to compromise with the Black Ships. TI had threatened a lawsuit against firms exporting goods that infringed on TI’s patents, and this threat was limiting consumer electronics exports. “MITI had no choice but to agree with TI’s request for a subsidiary, because it needed TI’s patents,” explained a MITI official involved in the negotiations, who soon after became the head of TI’s Japan operations.

As part of the compromise, TI accepted MITI’s three conditions. However, MITI allowed TI’s joint venture with Sony Corporation, started in April 1968, to be a fake collaboration limited to three years. Sony was not involved in the venture’s management and sold its stock after the three-year period. MITI wanted the shell company in order to avoid setting a precedent for a wholly owned foreign firm. It was concerned about the entry of Motorola and Fairchild, both of which had fully owned subsidiaries on Okinawa, the return of which was under negotiation, explained a MITI official involved in the negotiations.

MITI’s ability to manipulate TI into accepting a phony partnership with Sony without eliciting any complaint from the U.S. government meant

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49 Interview of former MITI official who became a top TI executive, April 11, 1989.
50 Interview of former MITI official who became a top TI executive, April 11, 1989.
Motorola and Fairchild also had to find partners. However, no major players were willing to be subsumed by these U.S. giants. They knew that MITI would be heavily funding the industry and favored domestic firms over mixed joint ventures with foreign companies. This, of course, had the desired effect of further delaying these firms’ entry.\footnote{Tayō Keizai, June 10, 1972, p.81 and February 26, 1972, p.81.}

MITI ultimately arranged for Motorola to tie up with Alps and Fairchild with TDK, both makers of small parts and cassette tapes, and complete amateurs in the field of ICs. Tying the two foreign giants up in meaningless joint ventures minimized their impact on the chip market. The Motorola-Alps venture collapsed in 1975 during the oil-shock recession, and the Fairchild-TDK joint venture closed in 1977 after years of problems. TI, completely misunderstanding how Japan’s system works, ended up hiring the MITI official involved in setting up the Sony joint venture, to head TI’s Japan operations for nearly two decades after the agreement.

In short, the Japanese government was able to take advantage of the unwillingness of the U.S. government to intervene aggressively due to concern about the broader alliance. This enabled Japan’s firms to gain relatively easy access to U.S. technology and U.S. markets without giving up much to U.S. makers. Of course, the U.S. government and its makers were not expecting Japan to become an economic powerhouse, with the world’s most efficient semiconductor and consumer electronics industries.

MITI continued to help domestic chipmakers when they hit hurdles. For example, they strongly supported local firms in the so-called “calculator wars,” which occurred in the early 1970s when Japan was being forced gradually to liberalize its semiconductor market. This refers to the battle between U.S. and Japanese semiconductor makers for sales to Japan’s calculator makers, then one of the largest users of chips. When the calculator market took off in the late 1960s, the only place Japanese makers could find enough LSI chips was from foreign makers. Supplies were in such short supply that MITI, in late 1969, temporarily allowed TI to increase its production quota to help out calculator makers until domestic chip makers could ramp up.

MITI and the makers soon realized how important LSI would be. However, U.S. firms had a jumpstart and priced aggressively. MITI rebuked domestic calculator makers for ordering chips from U.S. makers, but producers argued that they had no other choice because domestic chipmakers did not produce enough. Having committed to liberalizing chips for consumer electronics use by 1973, MITI and domestic chip producers started a concerted effort to persuade calculator makers to buy
domestic chips. MITI gave administrative guidance to the calculator makers to use domestic chips. They warned that Japanese companies were becoming subcontractors to the United States.\textsuperscript{52} Japanese chip users followed MITI’s advice.\textsuperscript{53} After the domestic chipmakers had won the calculator wars, MITI slowly liberalized the industry.\textsuperscript{54}

The Japanese semiconductor industry also took advantage of the openness of the U.S. market and the existence of only crude trade policy instruments when it dumped memory chips in the U.S. market in the mid 1980s, helping push U.S. makers out of the memory market. As in the television case, it appears in retrospect that the comparative advantage might have shifted toward lower cost Japanese makers anyway, but the sudden onslaught of below-cost memory chips helped complete the kill swiftly and at an earlier stage than would have otherwise occurred.\textsuperscript{55}

Unlike the past, the U.S. government and American firms fought back. The industry filed a dumping claim, and the two governments completed an “arrangement” in 1986 that established a system for monitoring prices and included a side agreement allowing U.S. makers up to a 20% share of Japan’s market, double their share at the time. The arrangement and its effects have been analyzed in detail elsewhere. Essentially, it slowed the Japanese massive production increases that had occurred in the first half of the 1980s. Monitoring costs and managing trade led to significantly higher prices, boosting Japanese companies’ revenues. While many analysts argue that the agreement did not meet all its objectives, it did stabilize the share of U.S. producers in the global DRAM market, reverse the plunge in U.S. share in other memory chips, and increase the U.S. share in the Japanese market.\textsuperscript{56}

The way in which prices rose following the “arrangement” suggests close collaboration between MITI and the firms. In a quasi-free market, even under monitoring of dumping, we would expect low-cost Japanese producers to cut prices as much as possible, in order to gain market share at

\textsuperscript{52}Toyo Keizai, May 26, 1973, p.63.
\textsuperscript{53}Toyo Keizai, June 10, 1972, p.83.
the expense of higher-cost Japanese producers. Instead, Japanese firms all
announced production cuts on the same day, suggesting that MITI and the
firms cooperated on investment and pricing to benefit all Japanese firms at
the expense of foreign companies.\textsuperscript{57}

The semiconductor case remains one of the few cases where the
U.S. government took a relatively aggressive trade stance since the mid
1980s. This change signaled a worsening of the international environment
for Japanese firms – a shift in America’s perception of the tradeoff between
security and industrial interests. It marked the beginning-of-the-end of U.S.
tolerance for predatory policies in industries deemed strategic to the U.S.
economy.

\section*{Supercomputer Case}

In the supercomputer industry, Japanese leaders used strategic
industrial and trade policies, as well as core differences in the organizational
structure of their firms, to undermine the competitiveness of U.S. makers.
Many public- and private-sector policies and practices promoted the industry’s
development.\textsuperscript{58} However, because supercomputers are very expensive, public
procurement has always been key to overall market share, and the state used
public procurement policy strategically to help Japanese makers gain a
foothold. According to several experts’ evaluations of U.S. and Japanese
machines available in 1990, U.S. supercomputers were still ahead in most
areas.\textsuperscript{59} Nevertheless, out of 52 Japanese government purchases of
supercomputers through 1990, only five were foreign machines. As of March
1990, foreign supercomputer companies, Cray and Control Data Corporation
(CDC), had a 17\% share of the Japanese market while their share of the
European market was some 90\%.

In the late 1970s, the U.S. government began raising the issue of
Japan’s lack of public procurement of foreign supercomputers. Because U.S.
makers were considered, by all accounts, to be ahead of Japanese makers in
this area, Washington decided to pressure Japan to open up government
procurement. This pressure ultimately led to a series of agreements between

\textsuperscript{57} Tyson and Yoffie, “Semiconductors: From Manipulated to Managed Trade,”
p.33-34.
\textsuperscript{58} Much of this discussion draws upon Marie Anchorodguy, “Japanese-American
Trade Conflict and Supercomputers,” \textit{Political Science Quarterly}, vol.109, no.1, 1994,
p.35-80.
\textsuperscript{59} Anchorodguy, “Japanese-American Trade Conflict and Supercomputers,” p.41-
45.
the United States and Japan over supercomputer procurement, one in 1987 and another in 1990.

The U.S. government and the industry became especially concerned about supercomputer competition in 1986, when NEC beat Cray and CDC with a very low bid to supply a supercomputer to the Houston Area Research Center, a consortium of four universities in Texas. This raised concerns as to whether the next wave of dumping, after color televisions, machine tools, steel, and semiconductors, might be starting in supercomputers. The critical role of supercomputers in the nuclear power, aerospace, and defense industries also served to heighten U.S. government worries.

Washington was also concerned about barriers to U.S. supercomputer sales in Japan. Japanese authorities did not notify U.S. makers when procurements would occur. Moreover, due to low government budgets for universities and national labs, Japanese makers were forced to sell their machines at discounts of some 80-90% off list prices. This policy reduced financial support for Japanese makers but allowed them to avoid competition with foreign makers when pursuing the first installation at a given lab or university. Due to training and software issues, the first installation is key; after that, the firm is assured future sales through upgrades.

By late 1985 and early 1986, Washington started to complain more forcefully about the lack of transparency and public procurement of foreign machines. The U.S. government was buying Japanese semiconductors, telecom equipment, and various other sophisticated products that were superior in price-performance to U.S. products, and the sense was that such behavior was not being reciprocated by Japan. By 1986, the Japanese government had bought 22 supercomputers, but only one, bought by NTT, was foreign, even though U.S. machines were undoubtedly far superior at the time.

In response to Washington's demands, Prime Minister Nakasone Yasuhiro assured the United States that NTT would purchase another Cray supercomputer to improve the trade balance. By doing so, Nakasone killed two birds with one stone: NTT would show its commitment to buying more foreign equipment, and the purchase would increase public procurement of foreign supercomputers. NTT arranged for the Recruit Corporation, a real-

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60 Recently declassified telegram that reports on a meeting in Washington D.C. between Ambassador Togo of Japan and Assistant Secretary Holbrooke, State Department, Record no. 91307, November 13, 1977; Memorandum titled “SIG Meeting: Wednesday, December 5, 3 p.m. Roosevelt Room, Strategies to Address U.S.-Japan Economic Issues,” from Undersecretary for International Trade, Maureen Smith, to the Department of Commerce Office of the Secretary, Record no. 44968, December 5, 1984.
estate/job-referral firm that was involved in a major stocks-for-favors scandal in 1989, to repurchase the Cray supercomputer from NTT. Recruit needed the supercomputer and wanted to curry favor with NTT by helping it mollify American trade demands.

The United States was pleased with NTT’s purchase but was not satisfied with Japan’s managed trade response. It was particularly concerned that the Japanese government was not taking seriously U.S. complaints about the 80-90% discounts. Japan’s supercomputer makers, which were all diversified in other product areas, could afford such discounts, while Cray, a small firm with only one product line, could not. The U.S. government decided to have an inquiry into Japanese procurement under section 305 of the 1974 Trade Act. It insisted on an open market, not a specific number of purchases.

Negotiations did not get off to a good start. During talks in early 1987, MITI Vice-minister Kuroda Makoto allegedly stated that, no matter how hard the United States tried, it would not be able to sell supercomputers in Japan. Kuroda’s argument was that Cray was a small, fragile maker that could never compete against Japan’s huge electronics giants, which could cross-subsidize divisions. It was clear that Japanese supercomputer makers were losing money on their supercomputers but could afford to do so by subsidizing that division with profits from telecom and semiconductor sales. “We don’t need to make a profit on our line of supercomputers,” explained Watanabe Tadashi, the major architect of NEC’s supercomputers; “whatever is spun off from our supercomputer R&D helps in other information technology fields.”61

Kuroda denied that he had made such a statement. However, immediately after it was published in U.S. newspapers, NTT announced it would purchase another Cray machine to ease U.S.-Japan trade friction. This machine was also resold to the Recruit Corporation. For both purchases, Recruit paid NTT a 5% premium over what NTT had paid. These token NTT purchases in no way suggested that public procurement was becoming more open and fair.

In the summer of 1987, the two nations signed a formal agreement requiring that government institutions give full public notice of procurements. The discounting issue was not included in the agreement. The agreement was not effective. Because Japan’s market was now formally open and U.S. makers were notified when public procurements would be made, they had to make bids (a costly process) or otherwise look like they were not trying. But they could not compete due to heavy discounting by domestic firms. Also,

61 “Supercomputer Bout”, Business Tokyo, April 1990, p.34.
decisions about bids did not have to be based on performance, and specific Japanese universities had longstanding ties with specific firms. While the agreement did not lead to many purchases of foreign supercomputers, it hushed U.S. criticism for a while. With U.S. policymakers in charge of many different trade issues, and with short tenure in these jobs, making any agreement, even an ineffective one, alleviates pressure for state action, at least for a while.

Meanwhile, managed trade continued. For example, in October 1987, after an emergency budget for supercomputers was approved, MITI’s Agency of Industrial Science and Technology and the Tokyo Institute of Technology (TTT), a public institution, both announced they would buy American supercomputers. One government institute purchased a Cray and the other a CDC machine, not for market reasons but because they feared CDC would complain if they only bought a Cray. The bidding was formally open but everyone knew the government had approved the budget to alleviate trade friction with the United States. A MITI official acknowledged that TTT’s purchase of a CDC machine was contradictory to the principle of free trade, on which the two nations were trying to formulate an agreement. With these two purchases, the Japanese government felt it had fulfilled its promise to procure foreign machines.

However, Washington was not satisfied. In late May 1989, it targeted supercomputers under Super 301 of the 1988 Omnibus Trade and Competitiveness Act. It made clear that, in this second set of supercomputer negotiations, it wanted to deal with the heavy discounting of supercomputers. Immediately after the U.S. announcement, MITI gave the makers administrative guidance to keep their discounts under 50%. After that, Japanese firms made their discounts appear smaller by lowering their list prices. For example, Fujitsu won a bid to supply the Atomic Energy Research Institute with a supercomputer at a 25% discount. However, this discount was, in fact, a 53% discount over the previous list price. The U.S. government complained that lowering the list prices only made it look like a smaller discount and was in no way a solution to the problem. However, this policy continued, and the U.S. government lacked the trade tools necessary to counter it.

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63 Nihon Kaizai Sangyo Shim bun, October 20, 1987, p.3.
64 Utsumi, San nen go no Kompyuta Gyokai, p.21.
66 Nikkei Unbecha IBM ban, February 5, 1990, p.4.
In early 1990, as the second supercomputer agreement was being negotiated, Tohoku University decided to buy a Cray machine as the first installation for one of the university's labs. The university had generally bought NEC machines, so everyone expected NEC to win the bid. However, NEC suddenly withdrew from the bidding, citing government pressure aimed at easing trade friction. With this gesture of goodwill, the Japanese government was hoping to cement a supercomputer trade agreement so that the United States would not target Japan under Super 301 for another year. The strategy worked. The two countries made an agreement on the issue in late March, just in time to encourage the U.S. administration not to target Japan under Super 301 for another year. They signed the agreement on June 15, 1990, a day before the USTR was required to make a recommendation on the issue.

The supercomputer case shows how the vertically integrated and diversified structure of Japanese makers played a key role in their ability to dump machines in the domestic and foreign markets in ways that fatally harmed their foreign competitors. Like the case of dumping semiconductors in the mid 1980s, this case also shows that, starting in the mid-to-late 1980s, the U.S. government, at least in industries deemed strategic to long-term national security, began to give greater priority to industrial interests than it had in the past. While the trade tools used to counter Japan's policies were not very effective, they did increase the sales of U.S. supercomputers in the Japanese market. Moreover, they served to signal to Japan that U.S. tolerance for predatory policies was eroding.

**Conclusion**

The United States and Japan have a long history of trade friction, from the 1960s up until the end of the Cold War and the collapse of the Japanese economy in the 1990s. While recently declassified government documents do not provide detailed evidence of specific trade-offs between security and economic interests, it is clear in analyzing various cases in the electronics sector that Japanese leaders skillfully exploited the U.S. government's emphasis on maintaining a strong military alliance. They also were able to take advantage of Americans' serious lack of understanding of Japan's political-economic system and their arrogance about the superiority of U.S. technology up until the 1980s.

Japan was very lucky to rebuild its economy at a time when America was rich and bogged down by Cold War concerns. In contrast to other nations, such as the Philippines, which also enjoyed favorable protection and

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promotion by the United States, Japanese leaders exploited this favorable environment to promote the national interest. It was able to do so because a strong bureaucracy, acting in the national interest, skillfully targeted these industries.\(^\text{68}\)

The broader U.S.-Japan relationship started to change in the mid-1980s and 1990s. At this same time, Japanese targeting policies became much less successful. There are at least two reasons for the decline in the state’s effectiveness. As is clear from the forgoing analysis of targeting policies toward the electronics industries, the U.S. government’s willingness to support Japan as an unsinkable aircraft carrier at the expense of U.S. industrial interests declined significantly starting in the mid-1980s. U.S. industry and the government became much more knowledgeable about Japan’s system. They monitored government advisory boards, cooperative R&D projects, and procurement policies. The Japanese government and corporations simply could not get away with revising software laws, dumping semiconductors and supercomputers, and copying foreign software without eliciting a strong U.S. response. With rising economic problems America, growing Japanese economic strength, and the Cold War ending, the U.S. government became much less tolerant of policies that undermined its companies’ competitiveness.

The technological environment also started to change in the mid-to-late 1980s. Strategic industrial trade and targeting policies that had worked well in the past were no longer very effective. In the past, the Japanese government and firms could outwit Americans through long-term planning and superior manufacturing skills that cut costs and boosted quality. Through hard work and cooperation, they became global competitors in all of these industries except software. Their system worked well when industrial development could be planned – when the technological trajectory was clear, when technology could be purchased at reasonable rates from abroad, and when a focus on superior manufacturing could support a rising standard of living.

However, the system has not been very effective in an era of rapid, unstable, and discontinuous technological change. In this environment, it is very difficult for the state to pick winning firms and technologies. Winning firms are those that focus on ideas, dominate standards, and quickly shift their strategies to meet market needs. Yet, these characteristics cannot be nurtured through detailed, long-range planning. Winners tend to be characterized by much looser organizations, flatter hierarchies, and flexible employment and wage systems than the huge, diversified giants that dominate Japan’s electronics sector.

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This leaves Japan’s electronics firms in a serious bind. They have not made the transition from huge diversified, hierarchical firms focused on manufacturing to leaner, more flexible companies conducive to nurturing invention and dominant standards. Yet, with the rise in the value of the yen since the Plaza Accord, along with the emergence of tough competitors from South Korea and Taiwan, they are no longer competitive in commodity products, such as televisions, memory chips, and communications equipment. In memory chips, for example, they are the world’s highest-cost producers.

As the threat of Japan’s economic prowess has faded in the late 1990s and early 2000s, the U.S. government and corporations have become much less concerned about Japan in general and trade in particular, a trend the Japanese call “Japan passing.” Still, the U.S. government gives priority to defense over industrial interests, and this tradeoff will undoubtedly continue, given the new war on terrorism. However, the U.S. government needs to learn from past mistakes and not get too enmeshed in this same set of tradeoffs with emerging powers, such as China.
The U.S.-Japan Auto Negotiations and How They Represented a Shift in Bilateral Relations

Edward J. Lincoln

From July 1993 through June of 1995, the Clinton administration pursued an intense set of negotiations with the Japanese government concerning market access. A core part of those negotiations concerned access to the Japanese market for both finished automobiles and auto parts. Progress at the negotiating table proved extraordinarily difficult, and process reached a dramatic point in the spring of 1995 when the U.S. government announced punitive 100-percent tariffs on imports of luxury cars from Japan, and the Japanese government retaliated by protesting this action at the new World Trade Organization. However, agreement was finally reached at the end of June 1995, making moot the tariffs and the WTO case.

That negotiation and its completion in 1995 illustrates several important shifts that were occurring in the bilateral relationship, although few of them were apparent at the time. This paper considers four key shifts: the impact of the new WTO on the conduct of bilateral relations, the new Japanese willingness to oppose U.S. initiatives openly, the demise of the concept of “results-oriented” trade negotiations, and the end of two decades of intense (and often tense) trade negotiations.

Background

The Clinton administration was by no means the first to address access to the auto sector in Japan. The Reagan administration had achieved some minor success during the round of Market-Oriented Sector Selective (MOSS) negotiations in 1985-87. However, the issues negotiated, such as approval of foreign parts for use in auto repairs, were the same ones negotiated again in the 1990s.

The next round of negotiations came in the Bush administration in 1992. The resulting agreement included specific expectations concerning what would happen to Japanese imports of auto parts, overall purchases of non-Japanese parts (both in Japan and at overseas factories), and local content percentages for factories in the United States. The 1987 and 1992 agreements both tried to address some technical-standards issues relating to
finished foreign automobiles entering the Japanese market, but achieved relatively little success.¹

With the limited progress represented by the 1987 and 1992 agreements, the incoming Clinton administration included automobiles and auto parts as part of the Framework Agreement of July 1993, which established the basic issues and sectors for discussion and negotiation between the two governments. Encouraged by the example of the 1992 auto agreement, the administration wanted to include language about anticipated market results in all agreements. As put in the Framework Agreement itself:

Other Major Sectors – Measures undertaken in this area will address other major sectors, including the automotive industries. Efforts in this area, including existing arrangements, such as MOSS, will have the objective, inter alia of achieving significantly expanded sales opportunities to result in a significant expansion of purchases by Japanese firms in Japan and through their transplants, as well as removing problems which affect market access, and encouraging imports of foreign autos and auto parts in Japan.² [emphasis added]

Despite this explicit language agreed upon by the two governments at the outset of the negotiations, progress on all aspects of an agreement on autos and auto parts proved elusive. Initially there had been hopes of a completed agreement by the time of a summit meeting between President Clinton and Prime Minister Hosokawa in Washington in February 1994, but that timetable was too ambitious. After several more months of fruitless meetings, Undersecretary of Commerce Jeffery Garten declined to meet with his Japanese counterparts from September until January 1995, waiting for them to bring a new offer to the table.³ However, by April 1995 the two sides were still quite far apart.

Without visible movement on the part of the Japanese government after the meetings resumed, the Clinton administration finally decided in May to increase the level of pressure by imposing punitive 100 percent import duties on luxury automobiles imported from Japan (as well as filing

¹ For a description and analysis of these agreements, see The American Chamber of Commerce in Japan, Making Trade Talks Work: Lessons from Recent History (Tokyo: The American Chamber of Commerce, 1997), pp. 96-100.
a WTO case concerning access to Japan’s auto market).4 While this action created a sense of crisis in the Japanese government, it also led them to file a complaint against the United States at the newly formed World Trade Organization, confident that a dispute panel would rule the unilateral American restriction on luxury auto imports from Japan to be a violation of WTO obligations.

With the American tariff imposition and Japanese complaint to the WTO as a backdrop, negotiations continued and, in late June 1995, an agreement was announced. This agreement, like that of 1992, covered questions of access to both the retail automobile market in Japan and the market for non-Japanese auto parts (in Japanese transplants, domestic auto factories, and the domestic repair market). The agreement did not specify any numbers to define the term “significant,” but it did list a series of indicators that the two governments would use in periodic bilateral meetings to evaluate the outcomes.

The drama of punitive tariffs and the Japanese appeal to the WTO marked a high-point of trade tension. Although other trade issues surfaced during the rest of the 1990s – the difficult re-negotiation of an agreement concerning access to the Japanese insurance market in 1996 and the failed American WTO case on access to the retail market for color film in Japan in 1997 – the period of intense pressure on Japan concerning market access was over and has not resurfaced. The following sections explore why the auto negotiations and the agreement in 1995 yielded this turning point.

The WTO

Established by the Uruguay Round of GATT negotiations, the World Trade Organization (WTO) came into existence at the beginning of 1995. Creation of the WTO had been a key goal in the first year of the Clinton administration, but it also brought important changes from the GATT that significantly reduced the scope of American policy options. Specifically, the new rules essentially eliminated the ability of major WTO members to block dispute panel findings. Well aware of the importance of this change, the Japanese government became one of the first to use the new WTO in charging the United States with a violation of its WTO obligations. At the time, the Clinton administration argued bravely that the Japanese had a weak case, but the common perception was that the Japanese would win.

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In essence, the new WTO rules removed the willingness of any U.S. administration to use the powers granted under Section 301 of U.S. trade law to retaliate against imports in cases of inability to resolve unfair trading practices. Being able to threaten American action against imports had been part of negotiating tactics, though actual imposition of retaliation has been quite rare. The United States imposed punitive tariffs on some imports from Japan in 1987, in retaliation for Japanese non-implementation of the 1986 semiconductor accord, and that retaliation appeared to have a positive effect. In 1995, the 100 percent tariffs on imports of Japanese luxury cars were announced, but agreement in the auto negotiations occurred before duties were actually collected.

In the wake of the Japanese initiation of a WTO challenge to the 1995 auto import tariffs – even though the case did not proceed through the formal dispute resolution mechanism – the U.S. government has effectively dropped this bargaining tool. This marks a major shift in U.S. trade negotiating tactics. Those who had opposed American threats of retaliatory actions outside the framework of the GATT/WTO have seen the WTO rules and the subsequent change in American government behavior as a victory, reigning in “unilateral” American behavior. Those concerned about achieving success in the long-term American government policy goal of reducing trade barriers around the world lament the loss of an important bargaining tool and the probable impact this will have on slowing progress in opening markets.

One might describe this change as akin to the creation of courts to replace summary justice. Courts are considered more fair, but the extensive legal protections for the accused slow down the process of achieving decisions and allow some criminals to avoid punishment. Within the context of domestic social policy and behavior, people broadly accept a system of justice based on these protections. The U.S. government has now agreed to accept similar sorts of constraints in dealing with market access barriers around the world.

While the principle of extending a rule of law to international market access disputes may be a desirable direction in which to move, the non-transparent nature of access barriers in Japan implies that winning cases at the WTO will be far more difficult, time consuming, and costly than handling them through bilateral negotiations backed by threats of retaliation. This difficulty was amply proven by the U.S. loss on the color-film case, where a dispute panel unfamiliar with the intricacies of Japan was not willing to believe the American case about obstructed market access. Obviously, the U.S. government has decided that the value of the principle outweighs the practical loss of bargaining leverage with countries like Japan.
Japanese Willingness to Challenge the United States

During the past 55 years, U.S.-Japanese relations have generally involved a process of American pressure and Japanese response, even if the response has been reluctant, slow, and partial. Negotiations, especially on issues of market access, might begin with outright refusal to budge, but invariably led to some result that both sides could declare as acceptable or positive. However, when the U.S. government imposed the 100 percent punitive import duties on Japanese luxury cars in the spring of 1995, the Japanese government response was swift and determined. For the first time, they filed a major case against the United States at the GATT/WTO, and even seemed to relish the publicity generated by displaying outright opposition to the U.S. government.

Ultimately, the Japanese government could be described as adhering to its normal pattern of behavior since a “successful” conclusion to the auto negotiations emerged after the displays of punitive retaliation and WTO protest were over. Nevertheless, the willingness and glee with which the Japanese government proceeded with its WTO filing was a startling change in behavior, one that indicated that the “postwar” era was over.

Behind this change in behavior appears to be a generational shift. Those officials and politicians old enough to remember the war, defeat, and occupation had been reluctant to stand up decisively to U.S. pressure. They might delay, dissemble, and diminish pressures from the United States, in the obsequious manner of a humble servant, but outright opposition was a difficult posture for them to adopt. A younger generation of officials and politicians unburdened with this psychological baggage sees less reason to treat the United States from such an unequal standpoint. This younger generation – essentially anyone (as of 2001) under the age of about 55 – proved eager to take up the challenge of Shintaro Ishihara and represent the Japan that can say no.

The Clinton administration’s use of Section 301 as the basis for the auto import duties (rather than going through a WTO dispute procedure) provided this younger generation of Japanese with a perfect opportunity to exercise their new-found mettle. Their subsequent victory at the WTO on the color-film case in 1997 simply reaffirmed their courage and conviction that they could oppose U.S. demands, at least on market access issues.
This shift is a serious one, assuming that the change is permanent. A Japanese government that is more comfortable with outright opposition is obviously more difficult to deal with when bilateral problems arise. For decades, American officials had been comfortable with the unequal psychological relationship, so this shift also required a change in attitude on the American side as well.

The extent to which this shift is permanent, however, is partially in doubt. The stagnation and the problems of the Japanese economy that became so much more evident after the mid 1990s, and the contrast with the acceleration in American economic growth, caused a considerable sense of envy and sense of inequality to creep back into Japanese attitudes by the end of the decade.

The advent of the George W. Bush administration also led to a shift in Japanese behavior. Believing that the Bush administration intended to embrace Japan closely as its key friend and ally in the Pacific, the Japanese government has appeared far more willing to revert to a posture of obsequiousness, one quite different from the stiff posture of opposition displayed in the mid 1990s. Of course, the Bush administration has not raised any issues with Japan that have provided an opportunity to use mechanisms such as the WTO to express opposition. But Prime Minister Koizumi’s inability to stand up with the Europeans in opposing the United States on national missile defense or the Kyoto Protocols suggests an unwillingness to be seen as disagreeing with the U.S. government.

Nevertheless, the shift in attitudes accompanying generational change appears permanent and real. If or when the Bush administration chooses to pursue an issue on which the Japanese government is truly unwilling to bend, Japanese responses will be similar to those toward the Clinton administration.

Results-Oriented Negotiations

Trade negotiations from the early 1960s through the 1980s often proved of only limited value in opening up Japanese markets. Quotas disappeared and tariffs fell, but the penetration of foreign products into Japanese markets did not rise as a result. This outcome was at odds with both economic theory and with the experience of the United States, European countries, and others. Furthermore, trade barriers in other countries could be overcome by direct investment, but various official and
unofficial barriers kept direct investment in Japan at an extraordinarily low level until the late 1990s.\footnote{For an analysis of the failure of trade negotiations through the 1980s to produce tangible results in market penetration, see Edward J. Lincoln, \textit{Japan's Unequal Trade} (The Brookings Institution: 1990), or the update through the late 1990s in Edward J. Lincoln, \textit{Troubled Times: U.S.-Japan Trade Relations in the 1990s} (The Brookings Institution, 1999).}

This record of disappointment in achieving better access to Japanese markets led to a general discouragement among American business people and government officials. The first overt expression of this discouragement came in the semiconductor agreement of 1986, in which U.S. negotiators accepted a Japanese offer to specify a market-share target for foreign semiconductors in Japan. Failure to abide by this commitment led to the subsequent American retaliation, and that action appeared to have pushed the Japanese government into compliance. The foreign market share rose to the expected target and, having finally broken resistance to foreign products, continued to rise thereafter.

Discouragement and the example of the semiconductor agreement led the American business community to call for “results-oriented” negotiating strategies in a 1989 report by the Advisory Commission on Trade Policy and Negotiations (ACTPN). The concept was later given some intellectual acceptability when then-professor Laura Tyson (later the chairperson of President Clinton’s Council of Economic Advisers) authored a book on competition in high-technology industries, in which she reluctantly accepted the idea of managed trade as a second-best solution with Japan, if first-best, rules-based market opening measures prove ineffective.\footnote{Laura Tyson, \textit{Who’s Bashing Whom? Trade Conflict in High Technology Industries} (Washington: Institute for International Economics, 1992).}

The Bush administration moved to adopt these concepts in mild form. The administration included language in some of its trade agreements that made explicit the expectation of increased sales and market share as a result of the agreements. The auto agreement negotiated by the Bush administration in 1992 even included numbers expressed as forecasts of local-content levels at the auto industry’s American transplant factories, as well as overall auto-parts purchases.

The Clinton administration came into office hoping to make the inclusion of results-oriented language standard procedure, as indicated by the section from the Framework Agreement quoted earlier. Some people entering the administration believed that “results” should be quite explicit, in the form of the kind of market-share goals expressed in the 1986
semiconductor agreement, but these individuals were a minority and quickly lost out to those preferring less precise language.

By 1993, however, the Japanese government was ready to oppose vigorously any American attempt to make goals or results more explicit. While the government had acquiesced in July 1993 to the general language on results in the Framework agreement, attempts to make goals more explicit in the individual sectoral trade negotiations within the context of the Framework foundered. At least the administration was able to get the general language included in each agreement (quite similar to the language in some Bush administration agreements), and supplemented it with regularized post-agreement meetings to review an explicit set of qualitative and quantitative indicators to evaluate results. But having been backed into real concessions when forced to implement the semiconductor agreement, the Japanese government was adamantly opposed to anything that could be interpreted as a number, or firm commitment, that could yield a Section 301 retaliation of the semiconductor sort (or a WTO case in the post-1995 era).

Japanese opposition was reinforced by American intellectual opposition. Academic economists, Republican politicians or policy figures, and others deplored any suggestion that the Clinton administration might move toward “managed trade.” The ideology of free markets and free trade proved to be deep and strong in the American psyche, so that the particular problems associated with the Japanese market were insufficient to convince them to make an exception to the rule in dealing with Japan. The Japanese government also waged a successful campaign encouraging these American voices not only to believe that the Clinton administration was indeed pursuing “managed trade” but also to speak up in opposition.

Having struggled mightily with the concept of how to define “results-oriented,” the Clinton administration settled for the non-numerical outcomes contained in the auto agreement and others. More importantly, having emphasized this language during its first term, the second-term Clinton administration simply turned away from the whole issue to emphasize “structural” deregulation issues, where the emphasis was on the deregulation measures rather than on the market outcomes. By the time the Bush administration entered office in 2001, the whole concept of result-oriented negotiating strategies was dead.

Those who feel that any form of defining “results” implies managed trade are obviously cheered by the death of this concept. Sadly, the result, at least for the auto sector, is simply a lack of progress in market access. Consider the Japanese market for finished automobiles. As shown in table one, the number of imported cars sold in Japan, and their market
share, have declined substantially since 1996 – not back to the low levels of the 1980s but at least back to the pre-agreement level of 1994).

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<th>Imports (units)</th>
<th>Total Auto Sales (units)</th>
<th>Import Share (percent)</th>
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<td>1980</td>
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Note: Auto Sales includes mini cars, but not trucks or buses. Source: Japan Automobile Manufacturers Association

Because automobiles are a consumer product, one explanation is simply that the Japanese are not very interested in buying foreign cars. But this issue is bound up in questions of access to dealerships, a key part of the negotiations in 1993-95. Therefore, one could equally interpret the data as implying that, once the heat was off, market behavior reverted to its previous pattern.
Even the major foreign auto companies appeared to be less interested – some were busy digesting their (new or enhanced) minority interests in some Japanese auto companies, and a few (BMW and Daimler) actually experienced rising sales. Nevertheless, the data are disappointing. As noted in the 2001 USTR annual report on foreign trade barriers, “today American car makers sell fewer vehicles in Japan than they did before the Agreement was signed.”

The situation with auto parts is not any better. Sales of U.S. auto parts to Japan rose to $2.2 billion in 2000, from $1.7 billion in 1995 (and down from $2.3 billion in 1997) – only a thirty percent increase over a five-year period, from a small base. That left American parts manufacturers with a miniscule market share in Japan. At $1.5 billion, the American market share had been only 1.4 percent back in 1993; even accounting for a modest decline of Japanese automotive production from then to 2000, the American market share was unlikely to have exceeded 2 percent.

Despite these disappointing outcomes for automobiles and auto parts, there has been no interest in reviving result-oriented negotiations. The concept lost its intellectual appeal, and the administration was exhausted from trying to press it on a firmly opposed Japanese government. The willingness of the Japanese side to accept, or even to offer, the kind of outcomes that were evident in the 1986 semiconductor agreement and the 1992 auto agreement was gone.

**Autos as a Symbolic Turning Point**

A variety of factors, unrelated specifically to the auto negotiations, converged around 1995 to produce an overall reduction in the priority of market-access in American policy making. In this way, the auto negotiations became a symbolic turning point, bringing to an end several decades of highly visible negotiations that were, like autos, filled with tension and public drama.

Japan began the postwar era with stiff barriers on both trade and investment. Driven by a development ideology that emphasized making virtually everything at home, the Japanese government kept out both foreign products and foreign firms. That policy was tolerated, and even encouraged, by the U.S. government in the 1950s. Efforts to get Japan to

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8 1993 data are from USTR, “U.S.-Japan Automotive Fact Sheet,” April 1995.
reduce trade and investment barriers began in the early 1960s, and have continued to the present.

As the official barriers fell without producing tangible increases in market penetration, frustration rose, as noted earlier. Beginning with the sometimes-bitter negotiations in the context of the Tokyo Round of multilateral GATT negotiations, in the 1977-1979 period, pressure and tension was at a rather high level for all of the 1980s and the first half of the 1990s. The 1993-95 auto negotiations, with the drama of punitive tariffs and the Japanese WTO case, represented the peak in that tension. At the time, tempers flared and the press speculated about an emerging trade war.

How wrong they were. Rather than the beginning of a trade war, the auto negotiations represented the last gasp of an era of tension. Indeed, by 2001, the topic of trade issues with Japan had become virtually invisible in Washington. Bilateral negotiations on a variety of issues continued but, as a priority issue, market access in Japan had disappeared.

Leading up to the bilateral summit meeting between President Bush and Prime Minister Koizumi in June 2001, officials on the two sides reached an agreement setting up a series of bilateral discussions and negotiations called the “Economic Partnership for Progress” – quite similar to the Framework Agreement of 1993, minus the language about results. This agreement was an important, if modest, starting point for economic discussion in the new Bush administration, but the joint communiqué placed economic issues second, after security, and the Economic Partnership, per se, rated only a short reference sandwiched between extensive language lauding Prime Minister Koizumi’s reform plans and a ritual statement about launching a new WTO round.9 At the joint press conference after the meeting, neither leader mentioned the Economic Partnership for Growth, nor did the press ask any questions about it.

In short, the bilateral economic/trade agenda had been reduced to a rather minor role in bilateral relations.10 Why? The demise of trade tension from the time of the auto negotiations has a variety of causes, including: some success in the previous two decades of negotiations, the overall malaise in the Japanese economy, the leveling off of Japanese exports and surpluses, the emergence of a market for direct investment in

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10 The White House, Remarks by the President and Prime Minister Koizumi of Japan in Photo Opportunity, June 30, 2001.
Japan, as well as the overall high growth and transformation of the U.S.
economy in the 1990s.

Multilateral rounds of trade negotiations, plus the intense two-
decade agenda of bilateral trade negotiations have cleared away a number of
access problems in the Japanese market. The automobile and auto parts
sectors are not among those where negotiations have made a major
difference, but others, including medical equipment, food products,
cigarettes, and semiconductors have faced fewer barriers to entry as a result
of negotiations. The modest progress appears to have reduced the number,
or vociferousness, of American companies coming to Washington to
complain about the state of access to Japanese markets.

American pressure on Japan in the 1980s and the first half of the
1990s had also been driven by a sense of the unfairness of a successful,
affluent, rapidly growing nation being so stingy and slow about dismantling
its market access barriers. However, real economic growth in Japan from
1992 to the present has averaged only 1.0 percent annually, the banking
sector is overwhelmed by a mountain of non-performing loans that may be
in excess of one trillion dollars, and corporations (even in high-tech sectors)
have experienced weak profits or even losses. As a result, American
perceptions have shifted from a focus on the unfairness of an economic
giant protecting its home markets to one of concern about the Japanese
economy. After all, no matter how open markets might be, a stagnating or
shrinking economy is not a vibrant market for American goods and
services, nor is a weakened Japanese economy good for other aspects of the
bilateral relationship.

American pressure had also been motivated by rapidly rising
Japanese exports, as well as trade or current-account surpluses. Figure 1
shows what has happened to Japan’s exports, imports, trade surplus, and
current surplus, all measured in dollars. From 1980 until 1995, the dollar
value of Japan’s exports to the world increased at a rather high and steady
pace. But that growth halted in 1995. The trade and current account
balances (temporarily knocked down in 1989-90 by the spike in oil prices
and payment to the Gulf War effort), peaked in 1994 and subsequently
subsided somewhat.
These trends look somewhat different in yen terms (more relevant to the picture of trade seen from Tokyo), as shown in Figure 2, so that 1994-95 is not as much of an obvious turning point. But clearly, as viewed from Washington, the juggernaut of rising Japanese exports and trade surpluses peaked out around the time of the auto agreement.
Figure 3 shows exports, trade balance, and the current account balance as shares of GDP. Exports had been 12-13 percent of GDP in the first half of the 1980s, but that share fell and has remained below 10 percent since 1987. Both the trade and current surpluses reached a peak of over 4 percent of GDP in 1986, but subsided to a 2-to-3 percent range thereafter. According to these data, concern should already have fallen by the time of the auto negotiations, but perceptions lag. More importantly, there was concern that Japan was trying to overcome the negative impact of the collapsed asset price bubble in the early 1990s by pushing up exports, as shown by the temporary but substantial rise in trade and current account surpluses in dollar terms, and as a share of GDP, from 1990 to 1993.
Next, consider the market for inward direct investment. With economic stagnation and troubled corporations, some firms became available for foreign acquisition, a form of entry to the Japanese market that had been virtually impossible until the second half of the 1990s. The turning point was 1995, although the surge does not truly accelerate until 1997. According to Figure 4, the amount of inward direct investment rose from only 370 billion yen in 1995 (a value that had actually been declining for several years) to 3.1 trillion yen by 2000 — almost a ten-fold increase. Even though this increase came from a miniscule base, the dramatic rise in inward investment appears to have given foreign firms a means to increase their presence in Japan that had been previously absent.

One can certainly question the meaning of these numbers. In the auto sector, Ford increased its minority stake in Mazda, Chrysler acquired a minority interest in Mitsubishi Motors (ironically, a stake it had had in the 1970s but sold in the 1980s), and Renault purchased a minority stake in Nissan. In none of these cases had a foreign company acquired a controlling majority interest. Ford and Renault appeared content with their ability to exercise management influence even with roughly 37 percent minority stakes, but influence is far short of control. Nevertheless, one of the explanations for the decline in trade tension is clearly related to the fact that more American firms were busy acquiring firms in Japan and adjusting to their new ownership positions. When the 1995 agreement was due to
expire in 2000, for example, the American automobile firms appeared to have little interest in the agreement’s renewal.

All of these factors in diminishing the tension and the focus on trade issues were reinforced by the better performance of the U.S. economy, especially in the second half of the 1990s. With American firms losing global market share to their Japanese rivals in the 1980s, as the Japanese economy grew faster than the U.S. economy, the trend appeared ominous. With American firms surging ahead in the 1990s, especially in new areas of information technology, while their Japanese rivals lost market share and fell behind in terms of technology, concern about Japan diminished.

The shift in attitudes, in both directions, was exaggerated. Japanese firms had never been as much of a long-term threat to American firms and broader American economic interests as they often were portrayed in the late 1980s, nor has Japan declined as an economic power as much as commonly portrayed today. Nevertheless, the shift in perceptions about Japan in general, due to resurgent American confidence in the 1990s, is clearly a factor in explaining the decline in attention to market access problems. While the sustained growth phase of the U.S. economy dates back to 1992, its durability, strength, and technological component were not really evident until after 1995, as the Internet took off.

None of these factors is directly tied to the auto negotiations, but for most of them, 1995 is a demarcation point. Despite the noise generated at the time, negotiations on automobiles and auto parts were a last gasp before trade issues with Japan began a slide downward on the priority list in Washington.

Conclusion

The automobile and auto parts negotiations from 1993 to 1995 represented a high point in bilateral tension. The U.S. government could have stuck with its punitive tariffs on Japanese automobiles, and the Japanese with their WTO complaint. Nissan, whose Infinity luxury cars were about the only profitable part of its business, might not have survived while the WTO case proceeded. Therefore, the high-stakes tactics of the United States might have succeeded, despite the Japanese WTO case, in bringing further concessions from the Japanese government. Instead, however, the U.S. government called off the tariffs when a settlement was reached at the end of June. Unbeknownst to anyone at the time, this event turned out to be an important symbolic turning point in bilateral relations:
• The new WTO rules, and Japan’s use of them in the auto case, caused the U.S. government to abandon the threat of “unilateral” retaliation as a bargaining tool.

• The era of Japanese obsequiousness since 1945 drew to a close as the government demonstrated a willingness to pursue a highly visible and politically charged case against the United States at the new WTO. The Japanese came away from this episode proud of their ability to stand up to the United States, and convinced that it worked to frighten the U.S. government into reaching an agreement.

• The exhausting struggle to negotiate this agreement brought to an end the hitherto rising support for some form of results-oriented bargaining strategies. Pushing hard on this concept throughout all of the Framework negotiations, the U.S. government abandoned it in the face of both the very determined Japanese resistance at the bargaining table and opposition at home.

• Other factors unrelated to the auto negotiations converged around 1995 to shove trade issues out of the limelight. American economic resurgence, Japanese economic malaise, and a declining trade surplus all worked to lessen interest in trade issues and redirect the focus of bilateral relations onto macroeconomic and financial problems.

This story of the auto issue marking a turning point in bilateral relations contains both good news and bad news. The good news is that a trade war did not occur, and the bilateral relationship was not torn asunder, as some pundits feared at the time. The bad news is that questions of market access are far from resolved and, absent the sense of high priority these issues gained in the successive governments of Ronald Reagan, George Bush, and Bill Clinton, progress is destined to be slower and weaker. The Japanese government is well aware that the U.S. government has lost an important bargaining tool and that interest in market issues has virtually disappeared in Washington. While progress on market-access negotiations has not halted, the casual perception is that it has slowed.
Learning from the Past: Forging a New U.S.-Japan Partnership, What Can Be Done

Alan Wolff*

Over the last few years, when Americans talk of Asia, they generally focus first on China – a growing geopolitical and economic power. China makes the news for positive reasons – for example, having become the world's largest cell-phone market as this paper is being written – and also for negative reasons, such as the arrests of scholars, and measures taken against religious groups. China often appears to crowd Japan out of the headlines.

For many, Tokyo’s Narita Airport has recently been just a stopping-off point on the way to Beijing and Shanghai. When Americans’ attention has turned to Japan, the image has been one primarily of economic stagnation and, until recently, of political disarray. Now, there are some changes taking place. Prime Minister Koizumi is much in the news, and there are stories about some progress being made toward reforms. It may well be worthwhile for China-bound Americans to take another look at Japan.

America’s relatively recent disinterest in Japan on trade matters is atypical in the post-World War II period. It follows a "thirty-year war" over trade issues – beginning with the conflicts over textiles in the 1960s and ending with the Kantor-Hashimoto kendo match over automobiles in the mid 1990s. The last six years have been marked by an unplanned, inadvertent détente. The improvement in relations, consisting of an undeclared cessation of trade hostilities, has come about not so much through the efforts of the two governments, but because of broader forces at work both in Japan and in the United States.

Taking the less complex of the two countries’ situations first, the United States government became completely unconcerned in the 1990s about its bilateral trade deficit with Japan. This was a sub-part of America's insouciant disregard of its monumental global trade deficit position. However, the unemployment rate in the United States was very low, and

*Maki Hishikawa, Director of Japan Research at Dewey Ballantine LLP, contributed to this article.
economic and productivity growth rates were high. Imports kept down inflationary pressures. The pressures to open foreign markets for an outlet for domestic production were minimal.

The situation in Japan has had at least an equal bearing on the trade relationship. Economic stagnation has created a series of forces that reduced pressures on trade relations: (1) the Japanese market was of less interest to producers of U.S. goods, (2) foreign capital was being welcomed to an unprecedented degree, and (3) domestic pressures for economic reform were stronger than ever.

The bilateral relationship, which has never been free of ironies, added yet another to the list: the great pessimism over Japan's domestic economy, resulting from a series of failed economic stimulus packages, provides grounds for cautious optimism that reform within Japan will be real and not just symbolic. This, in turn, holds the promise of a more positive bilateral relationship, founded upon something better than Japanese economic distress. Adversity, as it has before in Japan, is giving rise to new possibilities.

**Positive Change in Japan**

There has been significant reform in Japan. The Financial Services Agency (FSA) was created in July 2000, marking a departure from the Ministry of Finance’s traditional reliance on informal micro-management of financial institutions in Japan. FSA’s efforts to shift to a rules-based, transparent administration of the financial sector should not be underestimated. To a greater degree than ever before, financial institutions are responsible for their actions. Increasingly, Japanese law, so often symbolic rather than mandatory, must be complied with. Crony capitalism is not gone, but it is certainly in disrepute and not without its risks.

Prime Minister Koizumi, for the moment, appears to be able to press for change in a manner that only a few Japanese prime ministers in the post-war period have been able to do. The results of the July 2001 election confirm the existence of high expectations of a large portion of the Japanese people for Koizumi’s reforms. His freedom of action may be transitory, but the changes that he stimulates are likely to be lasting. Against this upbeat assessment is the feeling on the part of more than a few Japan observers that, if Koizumi fails in his structural reform efforts, the sense of *shikataganai* (“it can’t be helped”) might even become stronger in Japan than it is now.
A state of crisis can create national will. The direction taken can be positive, or it can be catastrophic. The last century saw more disasters from strong leadership than positive breakthroughs, but the latter have not been absent. In the decades immediately following the Second World War, Japan accomplished so much against hardship that it is counter-intuitive to believe that it is impossible for it to do so again.

The well-known observer of Japan, Karel von Wolferen, often said that when he arrived in Japan in the 1960s, Japan specialists and government officials would say that Japan was “at a cross-roads” with respect to economic liberalization. Twenty-five years later, he said he found that Japan was “still at the same cross-roads.” This is no longer the case. Financial and industrial keiretsu relationships, which have long constituted an impediment to foreign investment, mergers, acquisitions, and other forms of restructuring, are eroding. Financial institutions and trading companies are of necessity divesting themselves of cross-held equity stocks of keiretsu firms that serve no readily apparent strategic or investment purpose. Japanese manufacturers’ keiretsu systems, consisting of vast networks of suppliers of parts and subassemblies, are weakening as both manufacturers and their affiliated parts suppliers move to forge relationships outside their groups. The need to serve the bottom line, rather than foreign criticism of Japan, brought about these changes.

Chronic economic straits have caused foreign investment to be welcomed in a manner that was unknown just a few years ago. The Japanese government’s acceptance of Renault’s huge capital infusion into Nissan in 1999 demonstrated a remarkable change from its earlier stance, given the fact that the Ministry of International Trade and Industries (MITI) arranged the merger of domestic car companies, Nissan and Prince, in the mid 1960s, in order to prevent a foreign takeover. According to recent Ministry of Finance statistics, direct foreign investment into Japan surged 460% from FY1997 to 3.125 trillion yen (25.4 billion) in FY2000, hitting record levels for the second consecutive year. U.S. companies were the largest investors with 1.01 trillion yen (8.2 billion) in FY2000.

The presence of foreign companies makes the corporate convoy (goro sendan) system, where none are allowed to fail, that much more difficult. Lack of cash flow also makes saving all companies impossible. It is too early to say whether the opening up will be permanent, deep and broad. The Japanese government is eager to allow the foreign acquisition of failed domestic companies in the financial sector. Foreign investment in the field of information technology, which Japan sees as a key means to economic recovery, has also been strongly encouraged. If the Japanese economy is to enjoy the full benefits of foreign know-how and capital made
possible by foreign direct investment, a more aggressive and liberal approach is required. Japanese opinion leaders should recognize that increasing foreign direct investment can lead to economic recovery. For this to occur, further progress will have to be made in the ways that corporations are governed and how they are audited. Proposals to these ends abound, but the outcome is not yet clear. Japan, although moving toward a rules-based system, has not yet fully arrived there.

On the trade front, economic stagnation and consequent reforms have caused trade frictions largely to disappear. Just a few short years ago, Japanese government officials in the new WTO world, in which trade retaliation was made very difficult, employed a policy of *muzenbarai*¹ when American trade negotiators came with justified complaints. However, even while discontinuing the past practice of entering repeatedly into settlements of a series of disputes through bilateral trade agreements, reform was stimulated. In this process, for example, large-scale stores appear to be permitted to be less fettered and may be able to help transform Japan.

Another positive sign (although some will greet this as counter-intuitive and marking only retrograde progress) is the appearance of *overt* protectionist measures in Japan, especially vis-à-vis China. Why in heaven’s name should this be seen as positive? Because, in prior times, access to the Japanese market would never have been sufficient to require the application of transparent safeguard measures. Import-disruption of the domestic market would never have been allowed in the first place.

When Japanese government-sponsored-or-tolerated restrictions fail to strangle trade, it is a marvelous thing to behold. When Japanese producers feel the discomfort of trade as well as realizing its fruits, it also means that the Japanese consumer has a greater chance of reaping some of the benefits of the international trading system. A good example is the recent popularity of the discount clothing chain Uniqlo among the Japanese consumers. By establishing a low-cost production system in China and completely bypassing Japan’s byzantine distribution system, the chain has been able to sell high-quality clothing for less than a third of what the Japanese consumers had been paying.

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¹Committing the act of “not answering the knock at the gate.” This was an act of extreme discourtesy to American negotiators. It marked the real emergence of Japan from the era of responding overtly to very heavy foreign pressure by grudgingly accepting domestic change in the direction of allowing market forces to determine economic activity.
The establishment of the U.S.-Japan Economic Partnership for Growth is an indication that foreign participation (gaishi sanka)² may largely replace foreign pressure (gaiatsu) within the U.S.-Japan economic relationship. As interdependence between the U.S. and Japanese economies has grown, U.S.-Japan trade/economic issues have been changing from a simple pattern of confrontation between American and Japanese interests to one in which domestic forces seeking reform (naiatsu) form alliances with American officials and business executives to challenge the anti-reform faction. Such alliances have become increasingly visible as a result of growing U.S. and other foreign direct investment, as well as the enhanced presence of American and European firms in Japan.

For example, the expansion of postal life insurance (Kanpo) products, over which the U.S. government has expressed concern at U.S.-Japan deregulation talks, has been criticized within Japan as an act of encroachment by the government on the private sector. Moreover, regarding Nippon Telegraph and Telephone's (NTT's) interconnection fees, one of the most contentious U.S.-Japan trade issues in 2000, a sizable force within Japan supported the U.S. government’s position that NTT’s monopoly is problematic. This domestic support is evident from continued Japanese criticism of the dominant position held by the NTT group within the Japanese telecommunication sector.

As positive as these developments are, much of the absence of traditional friction between the United States and Japan may still be due to the flatness of the Japanese economy, which reduces foreign interest in the Japanese market at the same time that it lessens Japanese resistance to the arrival of foreign capital. However, as foreign investors seek to move from the more troubled sectors, they are likely to find further obstacles to full participation in the Japanese economy.

**Obstacles to Japanese Global Leadership**

*Japan should share in leadership of the global economy.* Japan will have to allow ever-greater amounts of imports – particularly from countries less developed than it is – if it is to assume a mantle of world leadership. This will not be easy. It will require continued reforms at home and a stronger, more open economy. It will require continued reforms of corporate governance and transparency and, as importantly, a truly functioning Japan Fair Trade Commission, something largely absent to-date (with very few exceptions).

² The Japanese phrase “gaishi sanka” means “participation by foreign capital” or “participation by foreign companies.”
This is a blunt statement, but given constraints of space, it is worth being blunt rather than being polite but obscure.

Japan’s abandoning of its long heritage of protectionism will not be easy, but it is necessary for Japan and for the sake of its trading partners. It is not possible to remain a false friend of the developing countries, pledging to the goals of liberalization while denying the goods of these countries access to the Japanese market. Reversion to old forms of protectionism — such as phytosanitary inspections as a barrier to fruit and vegetable imports, and inspectors going home at noon while produce rots on the docks — is conduct unworthy of the world’s second-largest economy.

*Japanese leadership will require development by Japan of a positive international agenda.* There is much blame that can be assigned to the WTO Ministerial participants in Seattle in December 1999. Certainly, the Americans and Europeans should have been more capable of forging a consensus among themselves. But if the United States was overreaching, Japan was taking the opposite course. It was still playing defense, using the shield of “multifunctionality” to defend its protectionist agricultural policies, and attacking antidumping as a means of avoiding structural adjustment in Japan’s industrial export sectors.

In the negotiations launched at the Doha Ministerial Conference in December 2001, these concerns about Japan’s role persist. As it stands, there is a risk that, in comparison with prior rounds, the new round initiated in Doha might come to be called "The Retrenchment Round," partly because Japan, with support from other nations, seeks to undermine the foundation for tolerating open trade in industrial products between different economies, namely the guarantee that unfair trade practices can be offset.

*Sharing in the management of the international trading system should not take second place to the pursuit by Japan of regional trading arrangements.* Regional arrangements, for Japan with Singapore, Korea, or extra-regional arrangements with Mexico and Canada, are fine, just as regional arrangements for the United States will continue to play a role, but these must be either building blocks toward multilateral arrangements or they will be an incomplete and counterproductive policy.

*The international politics of attack are now an anachronism.* There was a period in American trade policy that required, I would argue, the United States to use substantial leverage. This line of trade policy actions started with Admiral Perry and continued through the Nixon *shokkun* and the U.S.-Japan textile agreements, the semiconductor agreement retaliation against Japan in 1987, a series of Section 301 cases, the confrontation with Japan over autos in the mid 1990s and, with respect to Europe, U.S. retaliation
over beef hormones and bananas. This approach to trade relations is
yielding diminishing returns.

One lesson for the United States, Europe, and also Japan, to
unlearn is that confrontation is the best means of making progress. The
U.S. policy of attack in the WTO, reciprocated by the EU, has strained
U.S.-EU relations, which are only now being repaired. Japan has decided
that a policy of WTO litigation against the United States is somehow in
Japan’s larger interests. Japan has learned the lesson of litigiousness from
America, but the newly litigious Japan is out-of-step with the requirements
of the current world, and its conduct is contrary to Japan’s own interests.

Japan’s attack is focused on the U.S. antidumping law. But U.S.
antidumping is a measured U.S. response to Japan’s failure to remove
overcapacity, resulting in the dumping of goods on international markets.
The creation of overcapacity is a heritage of Japan’s decades, if not
centuries, of insulating its domestic market from international market
forces. With structural reform and economic integration, dumping and
antidumping fade away, as they largely have between the United States and
Canada. The current dumping issue between the United States and Japan
concerns steel, but in the past it was color televisions, and then
semiconductors. Adjustment will necessitate Japan’s disbanding its steel-
producing cartel. If this does not occur, imposition of U.S. trade remedies
will not only be inevitable but will be sustained over a considerable period.

Japan’s attack on the U.S. defensive measures will certainly be
highly counterproductive. The pro-Japan trade sentiment in Congress is
too small to be measured. It is simply current economic circumstances,
outlined at the beginning of this paper, that keeps U.S. criticism of Japan
relatively dormant. Current and future Japanese policy can change that, and
Japan can create a crisis. Litigation in Geneva could prove to be a Pyrrhic
victory for Japan.

Good neighbors do not lightly decide to sue each other, or they
will no longer be good neighbors.

Still more sweeping market reforms are needed with Japan. Numerous
additional measures will be taken. The question is to what effect. The
mere existence of the vast operations of the three Japanese postal
businesses – personal savings (Yuncho), postal insurance (Kampo), and postal
delivery – in part holds the key to the pace of Japanese reform. Postal
savings alone holds 250 trillion yen ($2.02 trillion) in deposits, which makes
it the world’s largest financial institution. Together, personal savings
(Yuncho) and postal insurance (Kampo) control more than a quarter of
Japan’s 1,400 trillion yen ($11.3 trillion) in personal wealth. Bureaucrats
have for decades channeled a substantial amount of the huge revenues
generated by the two postal businesses into the Fiscal Investment and Loan Program (zaito). Zaito funds financed the Japanese military during wartime and, later, strategic industries such as electric power, coal, and steel, as well as public infrastructure projects through public corporations and other public lenders. It now continues to build airports, roads, and housing.

Despite the recent zaito reform, the government’s reign over a vast amount of the Japanese wealth is expected to continue to distort the market economy and impede the flow of capital from inefficient businesses to efficient, innovative ones. Prime Minister Koizumi, who has long advocated privatization of the three businesses, is likely to face continued resistance by deeply entrenched domestic interests against any bold reforms. Given the size of these enterprises, the fate of the postal businesses will affect not only American businesses in Japan but also the global economy. Without active foreign participation (gaishi sanaka) in the current debate, there is a risk of repeating the NTT fiasco, where “privatization” left intact the advantages NTT enjoyed as a government entity and its ability to dominate Japan’s telecommunications market.

Areas for a New Partnership

*E-commerce in a new trade round.* The greatest and most important point of convergence of U.S.-Japan interests should be the ongoing information revolution and the further development of electronic commerce. The information revolution is credited with a substantial portion of the low-inflationary, higher-productivity growth that has characterized the United States for the last decade. Japan’s perceived lag in embracing the information revolution has given rise to a major government reform effort, in particular under former Prime Minister Mori.

The Japanese government has enacted new laws to promote e-commerce. One new initiative is the IT Basic Law (effective January 6, 2001), which embodies the Japanese government’s strategy for moving the country into a leadership position in the global Internet within five years. A massive revision of existing laws has also been undertaken to clear away regulatory impediments to e-commerce. A total of 124 laws, including laws requiring paper documentation procedures, were identified by the government last year as impediments to the development of e-commerce. Fifty of these laws were amended by the E-notification Law (effective April 1, 2001). With the common goal of fostering IT-driven economic exchange, Japan and the United States may be able together to craft the elements of an e-round of trade negotiations based on barrier-free e-commerce.
Of course, additional work needs to be done in order for e-commerce in Japan to become more barrier-free. The Japanese distribution system is one area that requires substantial, additional reforms. The traditional trade practices, regulatory regime, and other impediments due to the distribution system—all characteristic of Japan’s historic fortress economy—have continued to prevent Japan from fully embracing the virtues of e-commerce that could revolutionize its economy. Distribution has to become a more efficient, open, and culturally neutral channel into the Japanese market.

There may well be other areas in any new multilateral negotiation where the United States and Japan could find their interests allied, but this is not yet apparent. In prior rounds, Japan sought to adopt as low a profile as possible to avoid liberalization. Its performance at Seattle was higher profile, but hardly constructive. Domestic imperatives for greater openness may force Japan to take a more forthcoming stance in international fora. We shall see.

*Bilateral consultations addressing domestic regulatory reform.* On June 30, 2001, President Bush and Prime Minister Koizumi launched a new bilateral initiative called The U.S.-Japan Economic Partnership for Growth. It is a relatively elaborate structure with a senior-level forum, meetings with a private-sector/government commission, and groups to address four issues: regulatory reform and competition policy, foreign investment, finance, and trade. These groups are charged, variously, with carrying forward an “initiative” for regulatory reform and competition policy, and for investment; conducting a “dialogue” on financial issues; and participating in a “forum” to engage on sectoral trade issues. The private sector is to be represented in one way or another at all levels. Presuming that the use of different terms for these groups was intentional, it is clear that there is a greater emphasis placed on concrete progress on structural issues than on traditional trade matters.

The U.S.-Japan Sub-cabinet Economic Dialogue is to supervise this *gion* festival-float sort of structure. The whole represents a compromise between the Japanese side, which wanted primarily a high-level, standing private-sector committee, and the American side, which favored concrete discussions that resemble negotiations. Under the Sub-cabinet group is a “high-level officials group” chaired by a Deputy USTR and a Deputy Minister of the Ministry of Foreign Affairs. Then there are working groups, four sectoral (telecommunications, information technologies, energy and medical devices/pharmaceuticals), and one cross-sectoral.

Because, as of this writing, talks are still at an early stage, it would be premature to pass judgment on what might be achieved. It is a positive
development that both sides agreed to talk seriously (at least about structural issues). There is so much that needs to be accomplished that it is worth the time and effort to seek jointly to promote solutions to deeply imbedded problems in the world’s second-largest economy. Can this process be effective? Yes, within limits. It is best, however, not to expect too much. Most of the subjects under discussion are primarily of domestic concern to the Japanese side. America has a strong interest in the outcome, but its interest is derivative. America wants a reversal of the Japanese deflationary condition that is affecting the rest of the world, and particularly the rest of Asia. America also wants growth restored to the Japanese economy, and seeks through reform efforts to enhance the prospects for achieving that result.

On the spectrum of relying on gaiatsu (external pressure) or naiatsu (internal pressure), this basket of initiatives – dialogues, a forum, and working groups – appear to fall hard on the naiatsu end. But given the present second-tier level of interest shown by America in Japanese matters, and given the fact that Japan will not adopt far-reaching and painful economic reform measures to accommodate the United States, and, if reforms are instituted, they will be instituted for domestic policy reasons, the vehicles and approaches are probably the appropriate ones.

Conclusion

Over the course of the last three decades, I have written and spoken often on the subject of U.S. economic relations with Japan. Lately, my attention – along with that of most Americans – has focused on China. The pendulum will swing back, at least to some extent. The U.S. relationship with Japan deserves attention, too. The fact that there is a limit to the direct effects American policy can have on the issues presented within Japan should not prevent America from doing its utmost to accelerate Japan’s movement toward economic reform.

On the whole, the evolution of the bilateral relationship is taking place in a positive direction. The relationship is maturing. Japan, with all its troubles – probably because of its economic troubles – is taking actions that make it easier for the United States to get along with it. There is some reason for cautious optimism, although serious issues remain.

The most important bilateral economic relationship for Japan in the near term will remain the one it has with the United States. A more positive attitude in Tokyo should be reciprocated by the United States. There will be a temptation on the part of U.S. officials to make speeches about the need for a
strong relationship with Japan and then to continue in the belief that Tokyo is not likely to be a reliable and useful partner for creating an improved international trading system.

The basis for effective management of the international trading system rests primarily on the capacity of the United States to lead, closely joined by the European Union (if the efforts are to be successful). There is one new potential partner for America and Europe, however, and that is Japan. With a good deal of effort on both sides, this partnership could become real.
Japanese "Capitalism" Revisited

Chalmers Johnson

Almost twenty years ago, I unintentionally set off a controversy concerning the nature of the Japanese economy that is still active at the present time. In my history of Japan's Ministry of International Trade and Industry (MITI), entitled MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975, I enlarged the dichotomy between so-called plan-rational and market-rational economies that had dominated Cold War ideological debate to include another basic prototype – the plan-rational market economy, neither socialist nor Anglo-American capitalist in orientation or operation (see Johnson, 1982a; 1995). I argued that Japan was a leading exemplar of this type (For important works on the Japanese economy that apply and extend this argument, see Anchordoguy, 1989; Arase, 1995; Carlile and Tilton, 1998; Gao, 1997; Huber, 1994; Tilton, 1994; Tilton, 1996; and Woodall, 1996).

In the Japanese-style economy, the government imbeds incentives and disincentives within the market to achieve its goals. Market players, enjoying private ownership of property, respond as they see fit in order to secure their personal advantage. It is not a command economy, and there is no socialist displacement of the market.

The Capitalist Developmental State

After a long period of prewar and wartime experimentation, Japan's state-guided but privately owned economic system was the primary agent responsible for Japan's spectacular, if unexpected, post-World War II advance to the rank of the world's second-most-productive economy. I called Japan an example of a "capitalist developmental state," in contrast to the "capitalist regulatory state" found in orthodox English-language capitalist theory, and also noted that Japan's economic achievement was not unique; its main principles and institutions were being duplicated in South Korea and Taiwan with equally impressive results (The most important works on the "developmental state" concept are Appelbaum and Henderson, 1992; Chang, 1994; Fallows, 1994; Fields, 1995; Mathews and Cho, 2000; Wade, 1990; Weiss and Hobson, 1995; Weiss, 1998; Woo-Cumings, 1999; and Wu, 1994).
The primary focus of my work was the evolution, structure, capabilities, and powers of the Japanese state's bureaucratic apparatus for implementing "industrial policy." I emphasized the state's importance because, until that time, there had been no serious research on this subject. The extraordinary powers of the Japanese bureaucracy in the economy, as compared to the powers of the parliament or the private sector, were virtually unrecognized among Japan's Cold War allies. I did not say that the state was the sole element influencing the economy, but I stressed that unelected, elite officials played much larger roles in economic affairs than was suspected by those who categorized and studied Japan as a late-developing version of the Anglo-American type capitalist economy.

This argument, although widely accepted by a broad range of Japanese and foreign analysts, turned out to be both controversial and an ideological challenge to the leaders of the American and Japanese economies in ways that I had not anticipated. The publication of my study coincided with the emergence of Japan as a formidable challenger, and even a threat, to the viability of many manufacturing industries in other capitalist countries, particularly in the United States. By the mid-1980s, Japan was no longer "catching up" with the so-called advanced industrial societies; it was the size of two Germanies and posed a competitive challenge to the automotive, steel, consumer electronics, robotics, semiconductor, liquid crystal display, and other industries of many countries.

The United States produced libraries of articles and books on Japan's business secrets; titles like Trading Places: How We Allowed Japan to Take the Lead and Blindside: Why Japan Is Still on Track to Overtake the U.S. by the Year 2000 dominated public policy debate (see Prestowitz, 1988; Fingelton, 1995); and Michael Crichton wrote a best-selling novel, Rising Sun (1992), with a bibliography attached. The film made from the book portrays Japan's aggressiveness in advancing into the United States and the ease with which it could buy the collaboration of American political leaders in undercutting American enterprises. There were many calls for Americans to wake up to the Japanese "threat" or to learn from Japan in order to be able to compete effectively with Japanese companies.

There were also two quasi-official ideological responses to the new analyses about what made Japan so successful: one American and one Japanese. The American view was to deny that Japan constituted a different kind of capitalism because, if it did, that would weaken the ideological monopoly of so-called neoclassical economics as a fighting ideology in the Cold War. For example, the Wall Street Journal's Paul Gigot had long maintained that Japan's economy operated just like the U.S. model. "Japan's miracle, like Britain's and America's before it," he wrote in 1986, "was
largely the product of creativity and enterprise by individuals and their businesses." To the extent that the Japanese economy was outperforming that of its mentor, this was usually explained via mysterious Japanese cultural traits.

Surprisingly, a decade later, in a column entitled "The Great Japan Debate Is Over: Guess Who Won?" Gigot had switched sides and was now deriding Japan's "model of bureaucratic-led economic growth" as a failure. His new point was that people like myself may have been right about how Japan worked but we were wrong to think it was a success. To the extent that the Japanese economy might ever stage a comeback, Gigot argued, in a fashion typical of his colleagues, it would have to do business "in a framework that more resembles the American model" (Gigot, 1986; 1997).

The Japanese view was more subtle. Most Japanese analysts recognized and accepted the accuracy of the "developmental state" concept; in fact, the Ministry of International Trade and Industry itself translated my history of its activities and had it published commercially (see Johnson, 1982b). But after a few years of favorable publicity, the Ministry concluded there was one major problem with analytical writing about its history and methods – it revealed far too much information to Japan's competitors who did not read Japanese and knew little of Japan's modern economic history. Japan's high-speed economic growth depended fundamentally on large and growing exports to the United States, an important point to which I shall return. By the 1980s, the American trade deficits had become a serious source of conflict between Japan and the United States. The United States argued strenuously that Japan utilized nontariff barriers to protect its domestic market, whereas Japan downplayed the deficits as mere "trade friction" while negotiating interminably over the rules both sides should follow. The new idea coming from the United States that Japan, in fact, constituted a different kind of economy and that the focus of negotiations should be on results rather than rules (as in trading relations with command economies) constituted a threat to Japan's continued surpluses. The idea that Japan was different therefore had to be discredited.

In a coordinated campaign that lasted well into the 1990s, the Japanese government and much of Japan's academic establishment attacked as economic "revisionism" (i.e., contrary to orthodoxy) the idea that Japan was a "developmental state" and insinuated that "revisionist" writers were "Japan-bashers," a barely disguised euphemism for anti-Japanese racists. Any article in an American newspaper that commented on structural features of the Japanese economy or on the interventionist role of the Japanese government normally elicited a letter to the editor from the local Japanese consul denying the charge. The campaign had some effect in
silencing people who were afraid of being called racists and in muddying the waters for the uninitiated about the nature of the Japanese economy.

The Plaza Accord and the Bubble Economy

Meanwhile, an entirely different analytical debate and international policy initiative started the unraveling of the Japanese economy. This, in turn, reinvigorated the debate about the "developmental state," but now with a focus on whether it was the cause of Japan's "lost decade," its near-recession conditions throughout the 1990s. Ever since the late 1960s, when America's trade deficits with Japan first became a serious political problem, one prominent explanation for Japan's economic success was that it enjoyed an exceptionally favorable exchange rate – namely, US$1 = ¥360 – which had been established during the postwar occupation in order to help Japan's economic recovery. One major purpose of President Richard Nixon's 1971 initiative to end the Bretton Woods system of fixed exchange rates was to force an upward revaluation of the yen, thereby weakening the price advantage of Japanese goods in international trade (see Angel, 1991).

Fifteen years later, with the United States' current account going from a surplus of $5 billion in 1981 to a deficit of $125 billion in 1985, the focus was again on exchange rates. For neoclassical economists advising the U.S. government, this was a "safe" approach. It avoided the delicate issue of whether Japan was a different kind of capitalism, and it promised some relief from the trade deficits, which had begun to elicit congressional calls for protectionist measures. The problem was that, while exchange rates affect prices, Japan's competitive advantage was not primarily in prices. Japan's trade surpluses and the worries they created in the United States were caused by its developmental state – easy access to capital for Japanese exporters in designated strategic industries, research and product development consortia, the blocking of foreign investment and sales in Japan, governmental efforts to separate foreign technology from foreign ownership rights, and many other industrial policy measures.

Japan also enjoyed privileged access to the American market because it was the United States' primary political and military satellite in East Asia, an aspect of the relationship that was taboo to discuss. Therefore, like Nixon, American leaders in the Reagan administration again turned to the manipulation of exchange rates to ease the economic pressure from Japan. They were aided by neoclassical macroeconomists, such as C. Fred Bergsten of the Institute for International Economics, who confidently argued that "the rise in the U.S.-Japanese trade deficit from 1980 to 1984 can be fully explained by changes in the exchange rate and
rates of economic growth” and that "to achieve equilibrium in the countries' global current accounts, the yen would have to strengthen to a range of at least 190 to 200 yen to the dollar" (Bergsten and Cline, 1985: 6, 45-46).

On September 22, 1985, the Ministers of Finance and central bank governors of France, Germany, Japan, the United Kingdom, and the United States met in the Plaza Hotel (hence "Plaza Accord") in New York. The United States and Europe insisted that Japan was benefiting too much from its price advantage in international trade and forced it to agree to a coordinated program of dollar selling that led to a 30 percent decline in the value of the dollar and a comparable rise in the yen over the next two years.

This initiative worked, but not in the way its sponsors had expected it would. The change in the prices of Japanese and American goods had little effect on the trade balance because Japanese goods were more attractive to international consumers because of their quality, fuel efficiency, and design than because they were cheap. At the same time, United States government officials made no real effort to follow up the Plaza Accord by forcing open the Japanese market to cheaper American products, because they assumed that "market forces" would do it for them. Instead, the Plaza Accord brought down the Japanese economy because of the Japanese government’s wild and ill-considered overreaction to it.

Until 1968, Japan was a net debtor nation and the United States was the world's largest creditor nation. After 1968, as Japan's trade surpluses grew each year, it became a creditor nation and began to overtake the United States. In the middle Reagan years, 1985 and 1986, the positions of Japan and the United States became reversed. Japan's net external assets at the end of 1984 were $74.3 billion, up from $37.2 billion in 1983. In 1985, they grew to $129.8 billion and, in 1986, to $180.3 billion. In 1985, Japan became the world's largest creditor nation, and the following year, the United States became the world's biggest debtor nation. This change in the two nations' respective financial positions was important. As Akio Mikuni, head of Japan's leading independent, investor-supported bond-rating agency, explained:

The Japanese economic system is . . . predicated on the ability to export surplus production, the result of which is an onerous imbalance in the relationship between Japan and the rest of the world. . . . Back in the 1950s and 1960s, Japan could exploit external markets without affecting them. But Japan is now too large. . . . The intention behind the system [is] to ensure that Japanese companies in so-called strategic industries enjoyed financing at costs that gave them a competitive edge over foreign
rivals... MOF [Ministry of Finance] officials... cannot accept a reversal of Japan's postwar policy of unlimited expansion of productive capacity, which is implied in any structural reduction of the current account surplus. Such a reversal would undermine MOF's power and legitimacy, as historically industries and banks depended on MOF for guidance... The system of maximizing the current account surplus worked well for Japan until it replaced the U.S. as the world's largest net creditor nation. By becoming the world's largest net debtor instead of its largest creditor, the U.S. could no longer act as a very good customer for Japan, as Japan can sell goods to the U.S. but cannot convert the sales proceeds into yen without driving down the yen/dollar rate (Mikuni, 1998: 2, 5, 8, 21).

The Plaza Accord came about because of the need to rectify the growing imbalances between an ascendant Japan and a declining United States, and it did succeed in making Japanese products much less competitive. The yen/dollar exchange rate went from ¥262 = US$1 in February 1985 to ¥158 = US$1 by early 1987, thereby significantly increasing the prices of Japanese goods on international markets. The Ministry of Finance, lacking real understanding of, or confidence in, Japan's economic achievements, panicked, fearing that Japan would be crushed by losing its artificial exchange-rate advantage.

The appropriate policy for Japan in those circumstances would have been to shift its economy to one that relied much more on domestic demand than on exports, to undertake reforms in order to expand domestic demand, and to forge mutually beneficial trading relations rather than ones based entirely on Japanese advantages. The unleashing of domestic demand was what former prime minister Hayato Ikeda had engineered back in the 1960s in his "income doubling plan" (shotoku baizo). Ikeda's consumer revolution in a society with a population half the size of the United States had been the basis of Japan's initial takeoff into high-speed economic growth. There were equally great opportunities to expand domestic demand in the Japan of the late 1980s – housing, hospitals, urban planning, and urban transportation all were (and still are) inadequate – but that was not the route the economic bureaucracy chose.

Instead, the Japanese government chose to bind itself ever more firmly into its Cold War relationship with the United States and to respond to the Plaza Accord by trying to undercut it. Under orders from MOF, the Bank of Japan slashed interest rates in order to generate an investment boom. The reduction in the cost of capital was intended to expand and
modernize factories so that they could produce goods that would remain competitive abroad despite a price disadvantage. According to Kenneth Courtis, then chief economist for the Deutsche Bank in Tokyo, between 1986 and 1991, Japan invested some $3.6 trillion in new plants and equipment and in research. This was targeted at reducing the costs of making products by 40 to 50 percent (McCormack, 1992). The net result, however, was to build huge excess capacity without regard to international or domestic consumer demand. And this led to a banking crisis, as well as a stagnant economy, that Japan has yet to overcome.

With interest rates so low, Japanese banks also loaned to risky and speculative borrowers, particularly in the real estate sector. Japan’s land-use pattern desperately needs reform. It is wildly skewed in favor of agricultural land, which rigs the political system in favor of farmers who, in turn, are one of the pillars of one-party rule by the Liberal Democratic Party. Under this structure, urban land in Japan will always be expensive. When urban land began to grow even more spectacularly in value during the late-1980s investment boom, it became the basis for a classic speculative bubble. Land became the collateral on which banks lent huge amounts of money, which was used, in turn, to buy more land (or shares on the Tokyo Stock Exchange) and to borrow even more from the banks on the basis of the newly acquired land and stock.

Satoshi Sumida, governor of the Bank of Japan during the late 1980s and a former MOF official, was the actual author of the "bubble economy." During December 1989, when the bubble was at its height, he was replaced as governor by Yasushi Mieno, an official who had spent his entire career within the Bank of Japan and was much more attuned to sound monetary policy than MOF officials. Recognizing that land prices were soaring beyond any realistic measure of value, he instituted tight money policies to stop the banks' lending to speculators. On December 25, 1989, Mieno raised the discount rate to 4.25 percent, and in August 1990, he raised it again to 6 percent. The resulting tailspin of the property and stock markets produced a crisis of "non-performing loans" (i.e., loans that could not be repaid) and a threat of insolvency to the entire banking system that has lasted well over a decade and that, as of early 2001, still shows no signs of being rectified. Mieno "now holds the record for destroying more financial wealth than any central banker in history" (Williams, 1999).

In the early years after the bubble burst, the Japanese government remained complacent about the need for reform, and it was never candid with the public about what had gone wrong. Even though its response to the Plaza Accord had left the country saddled with vast overcapacity in autos, steel, consumer electronics, and other products, the actual
performance of the economy did not force the government to undertake crisis management. Rather than a decade of recession, Japan actually had a decade of slow to moderate growth. Between 1994 and 1997, the U.S. per capita gross domestic product (GDP) grew by some 13.6 percent, whereas Japan's grew by 5.3 percent.

In response to the immediate cause of the slowdown – the crippling of the banking sector – the Japanese government chose to try to "grow" its way out of the problem. As in the past, it relied on its powerful export sector to pay the bills and tried to get the stronger banks to help the weaker banks via the so-called convoy system (goso-sendan soshiki). This meant that the government would deal with banking inefficiency and overcapacity gradually through mergers and cutting employment through natural attrition. The government did not use Japan's huge hoard of savings to liquidate the non-performing loans, nor did it order the consolidation of the financial sector, which, as we shall see, it was too politically weak to do. "Growing out" of its troubles was also a wildly unrealistic policy. Ronald Bevacqua of Commerz Securities, Japan, quotes estimates from the Industrial Bank of Japan that, in real estate, wholesale and retail sales, and construction, repayment of debt out of projected cash flow would have required 84 years, 32 years, and 19 years respectively (Bevacqua, 2000).

"Growing out" of its problems might have seemed superficially like a good idea, because it would avoid the huge social costs associated with wholesale reform, a lesson that was being driven home throughout the 1990s as post-communist Russia followed U.S. advice on how to reform its economy and inflicted as much domestic damage as Leninism and Stalinism had in earlier decades. But this policy also drew Japan inextricably closer to the United States, its primary export market. And the 1990s, the Clinton years, were an unusual time for the United States, with messages, policies, and advice emanating to Japan and the rest of the world that were a complex mixture of ideology, dissimulation, and industrial policy. Under the Clinton administration, the United States enjoyed an exceptional burst of economic growth and reveled in the triumphalism of being the "lone remaining superpower." But much of this was achieved with smoke and mirrors and had almost nothing to do with underlying realities.

The Japanese-American Relationship

During the late 1940s, when it became apparent that the forces of the Chinese Communist Party were going to win the Chinese civil war, the United States reversed its policies of attempting to democratize occupied
Japan and instead devoted itself to making Japan the leading U.S. satellite in East Asia. Many of the new policies it implemented were similar to those utilized by the Soviet Union in setting up and maintaining its satellites in Eastern Europe (for development of this argument, see Johnson, 2000). But the U.S. economic policies toward Japan and its other satellites in East Asia (e.g., South Korea) were markedly different. They rested fundamentally on two American beliefs: that the poverty-stricken economies of postwar East Asia could never compete successfully with the United States and that economic growth was one very important way to divert the people of these economies from the attractions of socialism, neutralism, communism, or other anti-American orientations.

The United States entered into an informal bargain with its dependencies in East Asia, of which Japan was the first and by far the most important. In return for the Asian nations' willingness to tolerate the indefinite deployment of American weapons and troops on their soil, the United States would give these countries preferential access to the American market and would tolerate their protectionism and mercantilism. These were advantages the United States did not extend to its European allies in the Cold War. As the American Embassy in Tokyo reported to the Department of State in 1960, "Our economic policy accorded Japan a fair and reasonable share of our market as premise and precondition for U.S.-Japan relationships in political and security fields and has led to substantial expansion of Japanese exports, making possible Japan's present economic prosperity" (Telegram from the Embassy in Japan to the Department of State, June 24, 1960, in United States Department of State, 1994: 378).

This policy is still in effect some fifty-four years after it was first implemented: in return for playing host to 43,000 American troops, Japan still takes as its due privileged access to the American economy and protectionist barriers against American sales and investment in the Japanese market. The overall results had become apparent in the 1970s and in acute problems for the American economy in the 1980s—namely, huge excess manufacturing capacity in Japan, the hollowing out of American manufacturing industries, and the largest trade imbalances (in Japan's favor) ever recorded between two economies. The United States nonetheless continued to tolerate the unintended consequences of its own policies, even though from time to time it vacillated between trying to force a more equitable trading relationship with Japan and maintaining the postwar Japanese-American security relationship unchanged.

Generally speaking, both the U.S. and Japanese governments over the years found it politic to pretend that there was no connection at all between their military arrangements and their trade, because to admit that
they were related would have made the nature of Japanese-American ties all too obvious. Most American military strategists saw the economic privileges given to Japan as unavoidable costs of maintaining the United States’ global empire, which they justified in terms of its Cold War competition with the former USSR.

During the 1980s, the distortions caused by the traditional trade-off between trade and military bases became acute and led to the Plaza Accord. But it has never been clear whether the United States truly intended that the manipulation of exchange rates should correct its huge trade imbalances with Japan or whether it was merely making a politically appropriate gesture to deflect growing domestic opposition to Japan’s economic ascendancy. Similarly, it is not clear whether Japan was truly defying the will of its hegemon in launching an investment drive to maintain and enhance its competitive ability or whether it was behaving in a traditional and tacitly tolerated way. Both sides had become schizophrenic: the U.S. government often justified particular economic inequities in terms of the need to maintain the "broader relationship" while Japanese nationalists countered American economic demands for a "level playing field" with threats to sell militarily relevant technologies to Russia and China. The 1989 book by then Diet-member and today mayor of Tokyo, Shintaro Ishihara, and the late Sony Chairman Akio Morita, The Japan that Can Say "No," is the most famous example of the latter position (see Ishihara and Morita, 1989).

In any case, in the late 1980s, Japan did not try to reduce its huge surpluses in its trading relations with the United States and sought instead to shore up the old bases-for-economic-advantages relationship that it had long enjoyed. But after Japan had become the world’s largest creditor nation and the United States the world’s largest debtor nation, it was simply no longer possible to go back to the status quo ante. That had always depended on the United States being overwhelmingly stronger than Japan in economic terms, which was no longer the case.

In order to prevent an intolerable rise in the value of the yen, Japan essentially had to disguise its surpluses by leaving them in Japanese-owned financial institutions in the United States where they became capital exports for American use. This did not enrich Japan in any real sense but it did give the country enormous financial leverage over the United States. As Eamonn Fingleton has noted, for the first seven years of the 1990s, Japan's net external assets jumped from $294 billion to $891 billion. By contrast, America’s net external liabilities rocketed from $71 billion to $831 billion (Fingleton, 1999:215).

Both countries also became more dependent on each other. Following the United States’ 1987 stock market crash, Japan bought large
amounts of American shares and thereby helped prevent a more serious panic. Moreover, Japan's low-cost financing replaced America's virtual dearth of domestic savings and allowed the United States to run huge external deficits without paying any of the usual costs, particularly a catastrophic loss in value of the dollar, while keeping inflation low and American financial markets buoyant. If Japan ever does become a genuine market economy and the United States is forced to finance its own debts from domestic savings, the deflationary impact on the United States will be devastating.

In the same manner, when in 1995 Japan asked for American help in promoting its "growing out" strategy, the United States obliged with a "reverse Plaza" campaign to lower the value of the yen and raise the value of the dollar. Of course, it had no choice, because, if Japan's hidden threat of withdrawing funds from the United States had been carried out, it would have ensured the end of the Clinton presidency with the 1996 elections. Neither the United States nor Japan was particularly concerned about what these currency manipulations would do to the other economies of East Asia, but they contributed directly to the 1997 global economic crisis, which began in Southeast Asia. Strengthening the value of the dollar to please the Japanese made the goods of countries like Thailand and Indonesia, whose currencies were tied to the dollar, uncompetitive in international markets.

**American Criticism of East Asian Economies**

Even though Japan and the United States were more dependent upon each other in the 1990s than either was willing to admit, the publicly perceived relationship between the two was one of a triumphantly recovered United States and a hopelessly wallowing Japan. Moreover, the United States took advantage of this new situation to comment ideologically on what was wrong with the Japanese economy in an attempt to overcome the 1980s perception that the Japanese-type economy constituted a genuine alternative to American-style capitalism. With the end of the Cold War in Europe in 1989 and the collapse of the Soviet Union in 1991, the United States entered a high-profile phase of its existence as the ostensible "winner" of the Cold War and exemplar of economic correctness.

The end of the Cold War also brought into much clearer focus the implicit American imperialist vision that had guided it since World War II and that the Cold War had camouflaged. As Linda Weiss puts it, after World War II, "International political cooperation (systematized through the institutions of Bretton Woods) paved the way for economic integration (mainly through trade) rather than vice versa. . . . Cold War politics served
to deflect attention from this evolving internationalist "liberal democratic order." The end of the Cold War appears less as a watershed than a marker in the rediscovery and retrieval of the liberal internationalist project that had all along been developing at its own pace" (Weiss, 1999:67).

During the 1990s, the Clinton administration devoted itself, particularly in East Asia, to advancing this "liberal democratic order." It pressured, advised, and induced Japan and the late-developing capitalist economies of the area to undertake economic reforms if they wished to adjust to the new, American-dominated world order. The Americans took up a new foreign policy project; in John Gray's phrase, they became "ranting evangelists for global capitalism" (Gray, 1998: 104). At a minimum, the Asian capitalists had to dismantle governmental supports for economic development, fully open their borders to flows of goods and international capital, and submit themselves to the rules and regulations forged and administered by the World Trade Organization, the International Monetary Fund, and the World Bank. At a maximum, they should take the United States economic system as a model of the most perfect form of capitalism. The United States implemented much of its program to induce these changes through the so-called Asian-Pacific Economic Cooperation (APEC) forum and disguised what it was doing by claiming that the United States itself was merely adjusting to what it called the forces of "globalization." These were alleged to be ineluctable and irresistible even though, concretely, globalization turned out to be almost entirely an American project and one that the United States pursued only so long as it served United States interests.

The result of this promotion of the liberal democratic order was the economic meltdown that began in Thailand in the summer of 1997, then spread to Indonesia, Malaysia, and South Korea, leapt to Russia, and finally destabilized Brazil. The metaphors used by the American press to characterize the crisis reflected its progressive stages. At first the financial panic was the Asians' own fault and reflected their "crony capitalism," an allegedly higher degree of insider trading and governmental corruption than existed in New York or Washington DC. Then the term became "currency contagion," also known as the "Asian flu," which suggested that even Western countries in which crony capitalism had not been detected might be susceptible to attacks on their currencies. Finally, the press devoted itself to the need for a "new financial architecture," acknowledging that the cause of the crisis was extremely volatile capital flows and that these had been made worse by following American advice and dismantling supervisory and oversight organs in the name of liberalization.
When it turned out that there were no Anglo-American interests that actually wanted a new financial architecture, the whole idea was dropped; and the world waited for the next financial crisis. The only East Asian countries to have avoided the crisis of 1997 were China, which ignored the American advice; Malaysia, which defied the advice it got from the International Monetary Fund; and Japan, which was itself one of the suppliers of volatile capital rather than a recipient of it (see Miller and Kojima, 2000: 37).

Throughout the 1990s, the United States criticized Japan. Much of the criticism was disingenuous because it would have devastated the United States if the Japanese had heeded it. Many American critics understood full well that the 1997 crisis had not affected the Japanese economy in the way that the economies of Thailand, Indonesia, and South Korea had been devastated. Japan's economic problems antedated 1997 and were unrelated to America's attempts to impose its liberal democratic order in East Asia. Moreover, Japan certainly did not need an IMF rescue package – at the end of 1998, Japan had personal financial assets of ¥1.253 trillion; at the end of fiscal year 1998, its current account surplus was ¥12.8 trillion; and at the end of February 1999, foreign exchange reserves were $221.5 billion. But Japan was in Asia, and it was therefore convenient for American propagandists to include Japan along with all the other countries of the area that were said to have "failed" economically because they had not followed the American model of capitalism.

The intent of this criticism was to discredit alternatives to the American model, particularly East Asia's "capitalist developmental state," and thereby provide a sound ideological foundation for further pursuit of the liberal democratic order. The American ideologues were indifferent to the relevance of their criticism – e.g., to the fact that none of the Southeast Asian economies even approximated a capitalist developmental state as it existed in Japan, South Korea, and Taiwan. They ignored cultural orientations that made the purpose of capitalism in many East Asian countries different from that of serving only the short-term interests of shareholders. They wildly overstated the attractiveness of the American model – the fact that, as John Gray puts it, "The idea that the United States is a universal model has long been a feature of American civilization... Yet the claim of the United States to be a model for the world is accepted by no other country. The costs of American economic success include levels of social division – of crime, incarceration, racial and ethnic conflict and family and community breakdown – that no European or Asian culture will tolerate" (Gray, 1998:216).
Nonetheless, the focus of the American critics remained on Japan's failings and how these demonstrated the correctness of Anglo-American capitalism. The RAND Corporation's Charles Wolf, Jr., insisted that governmental control caused both Japan's crisis and the Asian crisis, despite libraries of evidence that state intervention was a key factor in the economic development of England (e.g., the Navigation Acts, which required that all imports be carried in ships owned by Englishmen), Germany, Russia, and the highly protectionist pre-World War II America (Wolf, 1998). Michael Porter, the Harvard Business School guru and two Japanese collaborators, concluded that "The [Japanese] government mistrusts competition and therefore is prone to intervene in ways that harm the nation's productivity and prosperity. . . To develop a comprehensive solution, Japan will need to embrace some elements of the Western approach, much as it has in the past" (Porter, Takeuchi, and Sakakibara, 2000: 138, 188). The term "Western" here is, of course, a euphemism for the United States and perhaps the United Kingdom and New Zealand; American-style capitalism is assuredly not part of any Western heritage that includes France, Germany, Italy, Scandinavia, or Latin America. Richard Katz focused on Japan's keiretsu, financial system, protectionism, and other structural features of the developmental state and says they caused the economic doldrums of the 1990s. He does not explain, however, why this structure performed so well over the first forty years of the postwar period and failed only in the 1990s (Katz, 1998). Rich Miller of *Business Week* took a position similar to Katz's except that he accepted the American argument that "globalization" has created fundamentally new economic conditions: "After a lost decade riddled with economic recession, Japan is suffering an identity crisis. Its financial success after World War II was built on an economic model that no longer seems to work in the new era of globalization. . . It is U.S.-style capitalism – and the culture that accompanies it – that seems better suited for the new globalization age of rapid economic and technological change. America has an open society and an open economy" (Miller and Kojima, 2000: 45, 50).

It is interesting that Miller cited cultural differences as an element in the United States' superior performance. Most critics of Japan are aware that Japan has its own culture – that the pursuit of profit is thought of as selfish, that the high value placed on full and stable employment helped legitimate the postwar developmental system, and that the Japanese do not want to change their management system's emphasis on much greater equality of rewards than in the American version. But they rarely seem to understand that for Japan to adopt American practices would require a cultural revolution. John Gray summarizes this problem: "Western
prescriptions for Japan's economic problems are an incongruous mixture. Today, as in the past, transnational organizations insist that Japan must restructure its financial and economic institutions according to western – more precisely, American – models: the solution to Japan's economic problem is wholesale Americanization. For them, Japan will resolve its economic difficulties only on condition that it cease to be Japanese" (Gray, 1998: 227).

**President Clinton: "It's the Economy, Stupid"

A striking feature of these American views is how clouded they are by ideology about the United States itself. There is no recognition whatsoever that the U.S. government, during the 1990s, was extremely active in promoting the American economy and that a neutral comparison between Japanese and American economic performance would almost surely conclude that Japan had a weak industrial policy and the United States a strong one.

President Clinton, elected in 1992 and reelected in 1996, made the American economy the government's number one priority and restored fiscal discipline to governmental expenditures for the first time in thirty years. He used the resultant surpluses and savings in interest payments on the national debt to invest in education rather than cutting taxes for the rich. He staffed the government with the equivalent of Japan's famous unelected bureaucrats – men such as Lloyd Bentsen as Treasury secretary; Leon Panetta, a former congressman with a "passion for deficit reduction" (Klein, 2000: 208), as budget chief; Robert Rubin as head of Clinton's newly created National Economic Council and later as Treasury secretary; Lawrence Summers as Rubin's deputy; and Alan Greenspan as head of the central bank. He pioneered trade agreements with Mexico and China in the face of his own constituents' objections that these would encourage American factories and jobs to move to Mexico or Asia. "Clinton did have one undeniable foreign policy achievement," Joe Klein writes, "he rearranged the traditional priorities, raising economic issues to the same level of importance as strategic affairs" (Klein, 2000: 200). That was also the case in Japan from the end of the occupation in 1952 to approximately 1993.

A concrete example of 1990s U.S. industrial policy – although the U.S. government would never use that term – is export subsidies through so-called Foreign Sales Corporations. The United States altered its tax laws to encourage American exporters to set up largely paper presences known as Foreign Sales Corporations in tax havens like Barbados. This allowed an
American company to exempt between 15 and 30 percent of its export earnings from taxes on products that it routed through these paper subsidiaries, regardless of whether they were manufactured with American labor or abroad. The European Union objected that these tax breaks were really illegal subsidies and took the case to the World Trade Organization, where it won. The U.S. response was to pass a new law that gives American exporters even more tax relief but that ends the requirement that they channel their products through offshore entities. They now get the tax breaks directly. President Clinton signed the new law on November 16, 2000. The European Union again complained to the WTO, which on June 22, 2001 declared it to be a "prohibited export subsidy" (Alden, 2001; DeFazio, 2000; Meller, 2000).

One obvious explanation for the different performances of the Japanese and American economies during the 1990s is that the Japanese tried to follow American advice too closely while the Americans actually learned from Japan and instituted a pro-growth governmental economic policy. The contrast in policies was great. Whereas the United States ended its budget deficits and began to reduce its huge national debt, the Japanese did precisely the opposite. Pressured by the United States to implement Keynesian policies to stimulate domestic demand, the Japanese government wasted trillions of dollars on unneeded and environmentally destructive construction projects throughout their islands (see McCormack, 1996). The construction industry is also one of the main props of the ruling Liberal Democratic Party. From mid-1998 to the end of 2000, the Japanese government spent $1.4 trillion, the equivalent of the gross national product of France, and still could not get its economy to start growing. In 1991, Japan's public sector debt was just over fifty percent of GNP; by the end of 2001 it will be just under 151 percent of GNP, the largest amount ever owed by a developed country in peacetime. It seemed as though Japan was following the United States' 1980s model, with the difference that the United States spent its money on worthless armaments whereas Japan spent its money on worthless public works.

This comparison is not entirely fair, however. The United States and Japan are not simply the largest and second-largest economies on earth; Japan is also a political satellite of the United States. It operates under U.S. military and economic hegemony, which significantly limits its range of options, including its ability to adjust to the turn toward peaceful commerce in China and to peace initiatives on the Korean peninsula undertaken by the Koreans themselves. The key to Japan's challenge to the United States in the 1980s and its decline relative to the United States in the 1990s lies in the old Japanese-American relationship forged in the early days of the Cold
War and its persistence long after the conditions that originally justified it had disappeared. Japan's problems are not primarily economic but political.

The Foundations of Japan's Industrial Policies

The possibility of a state being able to implement a successful industrial policy depends upon some precise political arrangements. In attempting to forge an industrial structure that the state believes is necessary for the good of the society as a whole – one that market forces alone will not produce – it must prevent what, in the jargon of bureaucratic studies, is called "agency capture." This refers to the tendency for special interests to bribe, disable, or dominate – in short, to capture – the state organs set up to control and direct them in ways that they do not want to go but that the state believes they must.

During the period of Japan's high-speed economic growth, approximately 1955 to 1975, its state organs for formulating and implementing industrial policy, particularly MITI and the Ministry of Finance, achieved exceptional levels of autonomy from vested interests. They also enjoyed high internal esprit de corps and respect from the public. This was possible because of a political structure that the Japanese refer to as the "1955 system." It was the structure of party rule in parliament that came into being in 1955, when the left and right socialists merged to form the Japan Socialist Party (JSP) and the Liberal and Democratic Parties merged to form the Liberal Democratic Party (LDP). The Socialists controlled slightly more than a third of the seats, thereby preventing constitutional amendment by the LDP; and the LDP's majorities provided the political stability, which the elite bureaucracy used to make Japan into a rich and powerful nation. The LDP relationship with state officialdom was also enhanced by the fact that, from 1957 to 1972, the prime ministers of Japan were all former high-ranking bureaucrats who had entered politics upon retirement.

The LDP and the JSP divided fundamentally over the legitimacy and worth of the military alliance with the United States: the LDP embraced it and the JSP stood for abandoning it in favor of neutralism. But both parties collaborated to an exceptional degree on achieving economic growth and prosperity, including exploiting trade with the United States in order to do so. Because Japanese practice a form of consensus politics, the Socialists always had a voice in setting economic priorities and ensuring equitable distribution of the results of high-speed economic growth. On this point, Ronald Dore quotes a MITI vice-minister from the late 1990s:
"Until quite recently, given the parliamentary conventions of compromise established between the LDP and the Socialists, the latter, as the permanent opposition party, had been able to get about 80 percent of what it wanted into policy. But no longer." (Dore, 1999: 88).

Another element that contributed to the autonomy of the industrial policy bureaucracy was the "alliance" with the United States. It eliminated the hopelessly contentious subject of foreign policy from national debate by handing it over to the United States and to the U.S. spokesmen within Japan, primarily officials of the Ministry of Foreign Affairs. Fifteen years after the end of the war, the Japanese-American Security Treaty was the most divisive issue in Japan. In 1960, the riots that accompanied its renewal had brought the country to a standstill. In the wake of the ampo teso (Security Treaty struggle), Japan turned decisively toward efforts to become economically powerful and stifled debate about which side it wanted to be on in the Cold War.

It did so because the Japanese-American Security Treaty, which came into being in 1952 and was rewritten and renewed in 1960, was critical to its economic growth. As part of its Cold War grand strategy for containing Soviet and Chinese influence in East Asia, the United States made Japan into a permanent American military base. It asked Japan to tolerate its military bases on the main islands and made Okinawa into a de facto American military colony – formally until 1972 and implicitly to the present day (there are currently thirty-eight American military bases on Okinawa and a thirty-ninth is planned – see Johnson, 1999). In order to keep these bases stable and secure, the United States had to provide a foreign market for Japanese goods other than its traditional markets in China and elsewhere on the East Asian mainland. The United States also supplied funds and covert activities by its Central Intelligence Agency to ensure that the LDP stayed in power uninterrupted from 1955 to 1993 (see Johnson, Schlei, and Schaller, 2000; Schaller, 1997). The LDP was the institutional link between what the Americans wanted from Japan and what the Japanese wanted from the United States.

The economic benefits provided to an LDP-led Japan included opening American markets to Japanese imports, sponsoring Japan in international political and economic organizations well before there was any widespread consensus that Japan should be included, allowing the Japanese government to keep Japan and Okinawa closed to direct investment by American companies (see, e.g., Howell, 2000), tolerating high protectionist barriers to the sale of American products in Japan, supporting Japan’s policies of licensing technologies from U.S. firms without providing them with the usual protections of intellectual property rights, and encouraging
Japan to take advantage of the special relationship with the United States in order to give its people a stake in the Cold War. From 1952 to approximately 1971, the United States extended these benefits to Japan openly and generously. After the "Nixon Shocks" of 1971, it continued the benefits to Japan but did so grudgingly. The United States had become so accustomed to exercising military hegemony in the non-communist areas of East Asia, it could not contemplate the possibility that Japan might demand the return of its military enclaves, even though they were no longer worth what they cost the American economy in lost jobs and distortions to its industrial structure. Despite much fiery anti-Japanese rhetoric during the 1980s and 1990s, the United States never abandoned its quasi-colonial position in Japan and when, in 1995, the base structure started to crumble anyway, it moved vigorously to prop up the old relationship (and the LDP).

The End of the Cold War and Its Aftermath

The implosion of the USSR in 1991 eliminated any logic that the Japanese-American military-economic relationship might once have had. But both countries refused to recognize this and pretended that nothing had changed. Because the United States could not get Japan to moderate its economic advantages in the deal, it chose instead to try to get Japan to carry much more of the military burdens of American imperialism in East Asia. It hammered away at the need for "burden-sharing," which ultimately resulted in the so-called onniyari yosan (sympathy budget), through which Japan pays about $6 billion a year for the upkeep and happiness of the U.S. troops based on its soil. The major test and debacle for burden-sharing was the Gulf War of 1991. Much to the embarrassment of some LDP leaders, Japan refused to join the coalition against Iraq until after the fighting had ended. It then paid some $13 billion to support the war, but only after American leaders had pressured Japan to do so. This contretemps set up the collapse of the LDP in July 1993.

In 1993, the LDP disintegrated because it had lost its only raison d'être – anti-communism – and its role as a go-between for the Security Treaty. Neither the United States nor the Japanese people any longer felt a need to block the Socialists from power. Ichiro Ozawa, secretary-general of the LDP at the time of the Gulf War, led a motion of no-confidence in the Diet against Prime Minister Kiichi Miyazawa, which succeeded. Part of Ozawa's motivation was his frustration over the LDP's not lending support to the allied coalition in the Gulf War. He wanted Japan to become a genuinely more equal partner with the United States – what he called a futsu no kuni (an ordinary nation – see Ozawa, 1994). In the election that
followed, the LDP lost its majority in the lower house of the Diet and, for the first time since 1948, a coalition government led by a popular prefectural governor, Morihiro Hosokawa, took power. Amid great hopes among the Japanese people for political and economic reform – Hosokawa was the most popular prime minister since the populist Kakuei Tanaka in the early 1970s – it seemed that the post-Cold War era had finally dawned in Japan (for full details, see Jameson, 2000).

But it was not to be. The LDP and the domestic interests it represented (principally farmers, small retailers, the construction industry, and big business) were so traumatized by their loss of a majority that they turned themselves from a pro-business conservative party into a purely preservative organization fighting off assaults against it with every means at their disposal. They no longer much cared about the LDP's chief domestic function – giving the economic bureaucracy enough autonomy for it to cultivate growth-industries for the future. In fact, the LDP increasingly indulged in "bureaucrat bashing" in an attempt to shift the blame for the recession. Some of its criticism of the bureaucracy, of course, was justified, in that the failure of the policies that had produced the bubble economy tended to demoralize and unnerve the economic ministries.

Equally important, the United States became alarmed by the Hosokawa government's nationalistic reaction to the Clinton administration's pressure tactics on the economic front and also by signs of an independent spirit in Japan's foreign policy (for example, Japan's post-Gulf War relations with Iran). The leaders of the Pentagon therefore took it upon themselves to herd Japan back into the fold. In February 1995, the Pentagon issued its "Nye Report," named after Joseph Nye, a Harvard professor working for the military, to provide a rationale for its continued "forward deployment" in East Asia. Nye invented any number of threats, particularly "instability," that would erupt if the United States withdrew a single soldier, and he stated that the Pentagon would keep one hundred thousand American troops in Japan and South Korea indefinitely (see Johnson and Keehn, 1995). Only seven months later, these deployments produced precisely the kind of instability they were supposed to prevent. In Okinawa, three American servicemen gang-raped a twelve-year-old schoolgirl, setting off the largest protest demonstrations against the United States since the Security Treaty riots of 1960. Changes offered by the American government and military were largely cosmetic, and rebellion against both Tokyo and Washington remains endemic in Okinawa. In June 1994, a coalition government that had succeeded Hosokawa's was forced to resign, and the LDP returned to power, now as the dominant member of its own coalition. The truly startling feature of this government
was that the LDP's coalition partner was its old adversary from the "1955 system," the Socialist Party. This was one of the most cynical arrangements of postwar Japanese politics and had the effect of disillusioning virtually the entire electorate with parliamentary politics (see, e.g., Tamamoto, 2000).

The Socialists, desperate to participate in government before they became totally irrelevant, compromised every principle they had ever stood for, and the LDP accommodated them in return for their votes by allowing the head of the Socialist Party, Tomiichi Murayama, to occupy the prime minister's seat as the LDP's puppet.

In January 1996, Murayama was replaced by a genuine LDP faction leader, Ryutaro Hashimoto, who held on, doing nothing to revive the economy, until July 1998, when the LDP suffered a decisive defeat in elections for the upper house. Keizo Obuchi replaced Hashimoto until Obuchi's sudden death in April 2000, whereupon LDP leaders, meeting secretly, chose Yoshiro Mori as prime minister. None of these prime ministers offered leadership on any front. They devoted themselves instead to placating the LDP's traditional sources of money and votes. Typical was the meeting of November 27, 2000 at party headquarters, between the secretary-general and chairman of the LDP's Policy Research Council and officials from MOF, the Financial Services Agency, the Economic Planning Agency, and the Bank of Japan. The LDP executives asked the government officials to issue "administrative guidance" to keep banks from selling mutually held shares of the keiretsu, thereby directly countering measures that the bureaucracy wanted to implement in order to begin a long-delayed reform of the economic structure. So far from guaranteeing the bureaucracy's autonomy, the LDP was more interested in protecting the short-term interests of its financial backers.

What Really Failed in Japan in the 1990s

Many American analysts argue that the developmental state and the prominent role it gives the state in shaping a nation's economic destiny is what caused Japan's decade-long slowdown and the catastrophe that overwhelmed South Korea and Southeast Asia in 1997. The evidence suggests precisely the opposite. Japan was not overregulated but underregulated, and its capacity to formulate good policies and implement them was undercut by political factors. The country's problems began in the late 1980s when the Ministry of Finance exercised weak or nonexistent supervision over its chief clients, the banks, in their irresponsible lending to speculators. Japan's subsequent failure to undertake serious reforms during the 1990s was not caused by the economic bureaucracy's intervention in the
economy but by the economic bureaucracy's loss of autonomy to implement policies in the face of vested interests.

The LDP remains the problem. It can no longer play its assigned role within the developmental state, but it is artificially perpetuated in power by the demands of the old Cold War relationship. The LDP is the only Japanese political party sufficiently indifferent to the suffering and humiliation of the Okinawans (and other Japanese living near the U.S. bases) to act as the United States' agent within the country. Unfortunately for Japan, the United States has been more interested in keeping Japan as a docile satellite and discrediting it as an economic alternative to the United States than it is in allowing the LDP to pass from the scene and letting political decision-making return to the Japanese people. Despite mountains of propaganda trying to show that the 1997 Asian economic meltdown was the fault of bad economics, the World Bank's former chief economist, Joseph Stiglitz, concluded, "The scapegoat was overregulation; the real culprit was lax oversight." (Stiglitz, 1997). That was also precisely the situation in Japan. What is needed for all of East Asia is an end to American hegemony, the development of a political system in Japan that actually brings genuine leaders to power, and the restoration of industrial policy to its proper place in these societies that pioneered and perfected its use.
References


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