The Trilateral Commission was formed in 1973 by private citizens of Western Europe, Japan, and North America to foster closer cooperation among these three regions on common problems. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together among these regions.

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Editor's Note

Few issues could be more central to the Trilateral Commission’s work than Japan’s relations with its industrialized, democratic partners of North America and Western Europe, and its broader role in world affairs. Japan was involved from the start in the exploratory meetings that led to the Commission’s creation in 1973—in the words of former Foreign Minister Kiichi Miyazawa, now Chief Cabinet Secretary in the government of Prime Minister Suzuki, “This was probably the first time Japan had been associated as an equal partner in a discussion group of such importance and magnitude.” Since then, full Japanese participation has been central to all aspects of the Commission’s work; indeed, it has been one of the prime raison d’être of this work. For our part, in the pages of Triologue, we have made it a point to solicit Japanese voices, along with voices from Europe and North America, in an attempt to initiate a genuine “trioulogue” on whichever topic our past issues have addressed—most recently, on economic, trade, and security policies, East-West relations, the Middle East. . . .

In this special issue, for the first time we focus squarely on Japan, in a period when mounting calls are made upon Japan to increase its role in world affairs, and when we see in Japan itself the signs of a very new debate on the rationale for, and content of, a greater sharing of global responsibilities.

Since the beginning of 1981, Japan has been prominently featured in the news—witness the U.S.-Japan agreement on car sales and its repercussions in Europe; the controversy over former U.S. Ambassador to Japan Edwin O. Reischauer’s statement on past entries into Japanese waters and ports by American vessels carrying nuclear weapons; the resignation of Foreign Minister Ito in the wake of Premier Suzuki’s visit to Washington; the pressures from various quarters for Japan to increase its military expenditures and its share in the maintenance of regional security. . . . These headline-making developments are perhaps only symptoms—distracting ones sometimes—of a deeper process of readjustment of what Mr. Miyazawa, in a landmark speech to the Trilateral Commission in 1980 (published in Triologue 23), called the “alliance of common values” among the trilateral countries.

Evoking then the times when “the alliance relationship between America and her partners was overwhelmingly one-sided,” and the profound changes that subsequently came to affect the “power structure of the world” in the 1970s, Mr. Miyazawa noted that “it was only natural for America to ask her alliance partners of Western Europe and Japan to take up that part of responsibility which she now felt neither able nor appropriate to shoulder.” “Insofar as the Japanese were concerned,” he went on, “they were far from being ready to assume their share of global responsibility. Although Japan became increasingly conscious of the need to play a larger role in the international economy and made considerable efforts to do so, her actual performance, it must be admitted, fell far short of what was to be expected from the second largest economic power among the industrialized democracies. And she was much less prepared psychologically to shoulder even a modest burden of global responsibility in the political field insomuch as she had become accustomed to enjoying the benefits of peace under the American security umbrella.” Reflecting then—in the wake of the Afghan “test”—upon the need for America’s partners to carry an equitable share of the “burden of global responsibility,” Mr. Miyazawa stressed the corresponding need for America to “acknowledge the plurality of interests of her allies,” and for the definition of the interests of the “alliance” on any issue to become a truly “collective exercise.”

The evolving role of Japan in this “partnership in progress”—how that role is changing, and how it is perceived in Japan itself and by its trilateral partners in Europe and America—is the subject of this Triologue. Our authors—statesmen and scholars from all three regions—have successively addressed a number of key political, security, economic and financial issues evoked in Nobuhiko Ushiba’s opening analysis of the opportunities and pitfalls of the “concept of shared global responsibilities.” Their articles are, as always, their sole responsibility. We make them available in the hope that they will contribute to informed discussion of the issues at hand.
During the past decade, Japan has become the world's second largest economic power. It is a major exporter, importer, and provider of capital, and its cooperation is needed for any international embargo to be effective. With its growing economic strength, Japan's political influence has grown. So too has its military power; with a defense budget of less than 1 percent of its GNP, Japan, nonetheless, outspends all but seven other countries on defense.

Because Japan has become so large, other countries no longer allow Japan to pursue a foreign policy that separates economics from politics or which escapes taking political stands on the grounds that Japan should be friends with all countries. China wanted to know our position on "hegemony." ASEAN insisted that we have a clear stand on Kampuchea. The United States insisted that Japan participate in trade sanctions against Iran (after the hostage incident) and the USSR (after the Afghan invasion), and Japan agreed willingly, recognizing that important international principles affecting Japan's own interests were at stake.

Necessity of Sharing Responsibilities

It used to be that those Japanese who urged that we take clear positions on political issues were a relatively small minority and were mostly connected with the Foreign Ministry. Now our political leaders know that Japan must not equivocate on important international issues. This is a significant change, but public recognition of Japan's stake in world problems and Japan's need to share international responsibilities remains lagging behind.

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In many respects, Japan comes to the concept of "shared global responsibilities" reluctantly and unprepared. Aware of our limited natural resources and small geographical area and highly influenced by the wartime defeat, we emphasized economic recovery and growth during most of the postwar era. Security was ensured by the U.S.–Japan security treaty. The average Japanese took the international environment around Japan as a given; it was an environment shaped by the superpowers, not Japan. This pattern of thinking persists among many Japanese. Although we are proud of our achievement in making our economy the second largest, this does not translate readily in the Japanese mind into a need for expanded global responsibilities. In this sense, Japan is not fully "internationalized."

There are others in Japan who believe that Japan does have an international role to play, but reject the concept of "sharing the responsibilities. Such individuals, on both the far left and far right, implicitly and explicitly regard shared responsibilities as a formula for tying Japanese foreign policies more closely with those of the West, and particularly those of the United States. They would urge Japan to strike out an independent role in world affairs.

In my judgment, the concept of shared global responsibilities represents a constructive framework for helping Japan evolve a responsible international role commensurate with its size and the global reach of its interests. Such a role would be a cooperative one, developed in concert with countries sharing similar orientations towards global problems; it would be far more effective in securing Japan's interests than an independent and isolated foreign policy would.

I believe it would be very dangerous for Japan to expand its international role, particularly in the security area, without such a framework. One need not raise the specter of Japan's behavior in the 1930s to underline this danger. Because our democracy is firmly established and the world situation is very different, a revival of militarism and aggression of the prewar kind is virtually inconceivable today. But if nationalistic Japanese policies were adopted involving a rapid expansion of
Japan's self-defense forces or, even more unlikely, the abrogation of the security treaty or the expulsion of American forces from Japan, this would seriously escalate tensions in East Asia. Or nationalistic economic policies reversing Japan's steady trade liberalization path in disregard for GATT rules would be a major blow to the international economic system.

What is true for Japan in this regard is true for all the advanced industrial countries. Without a broadly shared sense of fundamentally common economic, political, and security interests and a framework for pursuing those interests in concert, it is very doubtful that world peace and prosperity can be maintained.

**Pitfalls of Responsibility Sharing**

Sharing global responsibilities is a necessity for the industrialized nations, but the concept also has pitfalls which we must carefully avoid.

First, there is the danger that the emphasis on shared responsibilities among the trilateral countries will cause other countries to think that we are trying to define a world order which serves our interests but not theirs. In fact, it is increasingly clear that international cooperation must extend beyond the trilateral world. With the diffusion of industrialization to the NICs and a diffusion of capital resources to OPEC, the proportion of world economic strength represented by the trilateral world is steadily declining. We are more and more dependent on the NICs, OPEC, and the third world in general to help sustain the world economic order, and these countries should assume responsibilities for shaping the global economic order.

Second, there is a need for a better international consensus on what international responsibilities are. Without such a definition there is a danger that the concept of sharing responsibilities will lead to finger-pointing and scapegoating by those employing their own definitions.

Some definitions overemphasize military security to the exclusion of other kinds of responsibilities. Obviously, military security is a very essential part of the shared responsibilities of free countries. There needs to be a credible deterrent to military aggression at both the strategic level and the conventional level in important theaters, such as Europe and the Korean Peninsula.

Other sources of international political instability, however, are economic, ethnic, and social tensions in many developing countries, weaknesses that can be exploited from the outside or simply erode the national fabric from within. In helping developing countries strengthen their resilience to such corrosive forces, foreign assistance, access to markets, foreign investments, technical cooperation, assistance in strengthening administrative institutions, and a variety of other forms of non-military cooperation may be much more effective than military aid or commitments. The Japanese concept of "comprehensive security" is designed to draw attention to the importance of the non-military as well as the military aspects of free world security.

Third, there needs to be an appreciation that the contributions of different nations to global responsibilities will vary according to many factors, particularly the domestic political constraints of each nation. Despite their broadly similar interests and values, the trilateral
countries have differences of economic structure, geographical situation, culture, and historical experience which will lead to differences in their perceptions of the world, its problems, and the proper approaches to those problems. Over time, as habits of sharing responsibilities become more ingrained, there may be some convergence, but for many years to come some countries will emphasize one approach or kind of contributions and other countries will emphasize others.

This divergence is not necessarily a weakness; it may well be a strength by allowing for experimentation and complementary (as opposed to identical) approaches. Take, for example, the situation in the Middle East. The United States does not deal with the Palestine Liberation Organization for reasons that have much to do with American domestic politics. In contrast, the European Community countries and Japan believe that the PLO should be more actively involved in the peace process. The fact that close allies of the United States do have relations with the PLO may prove to be helpful at a later stage in the peace process.

**Japan’s Role in the Sharing Process**

How can Japan contribute to the sharing of global responsibilities? I believe that Japan must do more in all fields—economic, political, and military. It should be emphasized, however, that Japan is already making substantial contributions and that as Japan’s role expands, it will necessarily be more economic than military in nature for a considerable time to come.

East Asia has become an area of high growth and considerable political stability compared to such regions as South Asia, the Middle East, Africa, and Central America. Japan has played an important role in stimulating the economic growth and stability of this region. It has been the principal trading partner, source of outside capital, and source of aid for most of the developing countries of East Asia.

Japan has also contributed in the security field through its bilateral security treaty with the United States and its hosting of American ships, planes, and troops. There is a larger American military presence in Japan than in any other country in East Asia, including South Korea and the Philippines. This presence contributes vitally to the security of other countries in East Asia and to the security of the United States, being an important element in the overall defense posture of the free countries.

Japan’s own self-defense forces and foreign assistance programs are excepted from the general budget ceiling, demonstrating Japan's seriousness in expanding its share of global responsibilities. Japan has also become a central pillar in support of the GATT trading system, making unilateral tariff reductions in advance of the last GATT Round. At the Reagan–Suzuki Summit in May 1981, Japan agreed to “make even greater efforts for improving its defense capabilities in Japanese territories and in its surrounding sea and air space, and further alleviating the financial burden of U.S. forces in Japan.” For the future, I believe that Japan can continue to assume a larger share of the defense responsibilities for the home islands and surrounding waters. Both domestic constraints and the concerns of our neighbors, however, will limit Japan’s defense role. The major share of Japan’s added effort will come in economic assistance and, I hope, even greater efforts to liberalize international trade, particularly with respect to products from developing countries.

Other trilateral countries can help Japan by being more understanding of the contributions Japan is making and more sensitive to the constraints on Japan. In the case of Europe, there has been a tendency to castigate Japan’s trade policies without adequate investigation of them. By the end of the phasing in of MTN tariff reductions, Japan will have the lowest tariff rates, on average, on manufactured products of the advanced countries, considerably less than those of Europe. With regard to agricultural products, Japan has made substantial progress in opening its market and now imports approximately half its caloric needs, while Europe remains staunchly protected by the variable levy system called the Common Agricultural Policy and sells abroad the subsidized surpluses this policy produces. In the United States also, there is considerable criticism of Japan’s trade policy by those without much familiarity with Japan, but because of more serious study in the United States on Japan’s trade, reflected in the Ways and Means Committee Task Force on Japan and the joint Japan–U.S. Economic Relations Group, most Americans familiar with Japan appreciate how open the Japanese market has become for those who work hard to enter it.

Recently, however, there has been an effort on the part of the new American Administration to accelerate the expansion of Japan’s self-defense forces. By suggesting the specific kinds and numbers of weapons Japan should procure, this effort created a debate on the appropriateness of this form of pressure, diverting attention of the Japanese leadership and public from more
fundamental issues of Japan’s security environment and needs. Japan can and will expand its defense role, but only when there is a national consensus to do so. This consensus cannot be artificially forced upon Japan from the outside; it must be built from within based on Japanese perceptions of threats and security requirements. It is the responsibility of Japan’s political leadership to build such a new consensus.

Japan also needs to better appreciate the burdens and domestic politics of its major allies. Recently, when former Ambassador Reischauer alleged that American ships bearing nuclear weapons did enter Japanese waters and ports with the secret acceptance of the Japanese government, there was a short-lived but vigorous press and media furor. Unfortunately, this furor diverted attention from a main point: that the American Seventh Fleet is an important element of the American presence and contributes to the military stability of East Asia. Japan benefits from this stability and cannot reap the benefits without some sacrifice. Because the public generally understands this, demonstrations against the American presence were small.

Means to Better Understanding

How can we increase the chances for a better understanding of the concept of “shared global responsibilities”?

First, there need to be more effective forms of consultations on both the bilateral and multilateral levels. While a relatively high degree of consensus on issues and what nations can contribute does exist among the governments, there is still room for improvement. This is especially true after there has been a significant change in one of the major advanced nation governments. In the American case, a change in party control of the executive branch has far-reaching effects on administrative personnel. Each change brings in people in authoritative positions without much prior governmental or international experience, and each new administration tends to make mistakes in foreign policy, often based on lack of experience or a lack of sensitivity to other governments’ interests. The allies of the United States need to be tolerant of this learning process, even while seeking to accelerate it. Some patterns must become ingrained, such as the habit of consulting with chief allies prior to making an important foreign policy decision affecting their interests.

In the case of Europe and Japan, as Mr. Kuriyama has also pointed out, there is a lack of experience in consultations on political issues. I am encouraged by the development of such consultations in the context of the advanced nation Summit conferences.

Secondly, there needs to be a heightened awareness among legislators, the media, and business and labor leaders in international affairs. These groups are at the periphery, or entirely left out, of intergovernmental consultations; yet, as influential public opinion leaders, they can often have a substantial influence on the policymaking process.

Parliamentary and other fora for exchanges and joint research programs, such as those sponsored by the Trilateral Commission, have been and can be an important means of better defining what the global responsibilities are, how they can be shared, and what the unique contributions are that individual countries can make, consistent with their own domestic political constraints. I am pleased to participate with North American and European authors in writing a new Trilateral Commission Report on the subject of shared global responsibilities.

I hope this report will contribute to a better understanding of the opportunities and pitfalls of the concept of shared international responsibilities.

1 See Takakazu Kuriyama’s article, p. 14 of this issue.

2 The Trilateral Task Force on “Sharing Responsibilities Among Trilateral Countries” is being prepared by Mr. Ushiba, Graham Allison, Dean of Harvard University’s John F. Kennedy School of Government, and Thierry de Monubial, Director of the French Institute of International Relations and Professor at the Ecole Polytechnique. The authors will present the report at the Commission’s 1982 plenary meeting.
I. Trends in Japanese Foreign Policy
During the past few years there has emerged in Japan a complex, public debate over the future of the nation's foreign policy, a debate that has been spurred by changes in Japanese perceptions of the nation's external environment, by an awareness of the country's economic strength, and by a desire to do more, and to be seen as doing more, in international affairs than simply pursue its own narrow economic interests. Shifting perceptions of the internal strength and external power of the United States, increasing concern about the potential threats to Japanese interests posed by the Soviet Union, sensitivity to criticisms leveled against Japan by Americans and others for its alleged failure to play a more constructive role in international political affairs, and success in accomplishing its goal of "catching up with the West" in its economic modernization together have convinced many Japanese of the need to redefine the country's foreign policy.

This effort to arrive at a new definition of foreign policy goals and priorities imparts a certain tentative, ambivalent and fluid quality to current Japanese foreign policy thinking. But it does not necessarily follow, as many observers are wont to believe, that the resolution of this ambivalence will involve marked departures from current orientations or, for that matter, that Japanese foreign policy thinking and behavior may not be characterized by a tentativeness and ambivalence for years to come. Current Japanese foreign policy, I would maintain, is not simply in a transitional phase—except in the sense, as would be true for any dynamic society, that it is constantly changing in incremental ways to adjust to new situations—but is rooted in a complex of attitudes, perceptions, and structural factors that are not likely to change rapidly. It is important for Americans to understand the impact of these factors on Japanese foreign policy if the United States is to play a constructive role in encouraging greater positive Japanese involvemen

volvement in world affairs and foster a closer and mutually beneficial relationship between Japan and the United States.

What are some of these factors that underwrite current Japanese orientations to foreign affairs? First is broad-based support for current policy, and for the government's defense policy in particular. The strong polarization that earlier marked public attitudes about defense policy, and that were reflected in a highly polarized political party system and widespread opposition to defense cooperation with the United States, are no longer dominant features of the Japanese political scene. Public opinion surveys show majority support for the U.S.–Japan Security Treaty and even stronger support for maintaining the Self Defense Forces at their present levels.

At the same time there is little evidence that public support is growing for policies that would represent a sharp break from current orientations, particularly in the area of military security. Although the Japanese public has become less "allergic" to military issues than before and more willing to recognize the need for a significant military defense capability, it continues to express strong support for constitutional provisions and established policy positions that act as constraints on the rapid and extensive buildup of Japan's military capabilities. Public support for Article Nine of the Constitution as it is presently interpreted is high, and large majorities oppose changes in policies that prohibit the acquisition of nuclear weapons or the export of arms, or any other policies, for that matter, that would represent a substantial departure from the status quo. The Japanese mood, in other words, does not encourage major departures from policies that by any measure have served the nation well. The pervasiveness of this mood is one central reason why the popularity of the current Prime Minister, with his emphasis on avoiding controversy either within the party or the electorate, is fairly high compared to that of his predecessors at comparable times in their administrations.

This is not to say that a political leadership determined to lead Japan into a new role in the world might not be able to rally public support on behalf of such objectives. It should be easier in Japan, given that the political opposition's role largely has been to oppose for

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opposition's sake rather than offer the public a viable alternative to government policy, for political leaders to move public opinion toward support of new policies now that opposition to current policy is weak rather than strong. But it is unlikely that such a leadership will emerge in this decade at least. For one thing, political dominance by the Liberal Democratic Party almost certainly will remain a feature of Japanese political life for several years to come, even if the size of its Diet majority, as is likely, is reduced from its current level. There is not, under foreseeable circumstances, going to be a transfer of political power to a party or coalition advocating a fundamental shift in the course of Japanese foreign policy.

Moreover, one party dominance, particularly when it is based on a relatively narrow Diet majority, tends to reinforce a propensity to avoid, rather than support, policies that threaten to generate intense public controversy. In Japan's postwar democracy, where there has been of yet no alternation of political power between parties and little likelihood of such a transfer for years to come, the LDP, through its factional structures and other arrangements, tends to function as its own opposition and to embrace within its reach a variety of differing and often contradictory viewpoints. This basic feature of Japan's political system is not conducive to the recruitment of a political leadership that is inclined to take political risks, whatever the personal proclivities of the individuals involved.

Furthermore, this political leadership style is entirely consistent with the reactive, adjustment-oriented qualities that have been long associated with Japan's foreign policy behavior. Despite the dramatic changes in Japan's economic position and the growing sense that Japan should play a more active role in international political affairs, basic Japanese orientations to international politics continue to be characterized by an emphasis on minimizing risks rather than exploiting and maximizing opportunities, and a propensity to define foreign policy issues in terms of how Japan can best react and adjust to situations created by others rather than in terms of how Japan itself can contribute to the structuring of the international system. Needless to add, a tradition of major bureaucratic involvement in policymaking processes and an especially central role for ministries concerned with economic affairs reinforce a pragmatic and incremental orientation and do not easily produce grand or not so grand designs.

For Japan, the perceived challenge of international relations might be characterized as one of skillfully navigating the ship of state through turbulent and dangerous international waters, careful to run with the currents, with the "trends of the times" as they can best be deciphered, rather than against them, and ever vigilant to steer a prudent course around the shoals and jetties that constantly threaten to disrupt the journey. These risk-minimizing, cautious and pragmatic orientations are deep-seated in the Japanese body politic and in its political, bureaucratic, and business leadership; and, although they are becoming increasingly incongruous with Japan's strength, they are likely to change slowly, if at all.

In addition to these general attitudinal and structural factors, perceptions of Japan's external environment which are widely shared by elite groups and the public-at-large reinforce support for current government policies. Japanese-Soviet relations, for example, have sharply deteriorated in recent years, and there has been a rapid growth of anti-Soviet sentiment in Japan resulting from Soviet policies in Afghanistan, in Vietnam, on the issue of the Northern Islands, and in response to growing Soviet military strength in the Far East and to a Soviet diplomatic stance toward Japan that appears gratuitously hostile. The Japanese government over the past few years has been increasingly outspoken in expressing its apprehension over Soviet policies, and in the 1980 Defense Agency White Paper referred to the Soviet Union as posing "an increasing potential threat to the security of Japan."

But the policy consequences of this anti-Soviet mood are not what many Americans, anxious for greater military efforts on the part of the U.S. allies to counter the Soviet threat, might expect. Although a perception of the Soviet Union as constituting a potential if not an already manifest threat to Japanese interests is now part of the official Japanese government position, this threat is perceived largely as an indirect one. Japanese political elites may worry about shifts in the strategic balance which they see as moving in favor of the Soviet Union, about the danger of increased Soviet intervention in the political affairs of states in and around the Middle East, and about increasing Soviet ability to project its force around the globe and in the Far East in particular, but few responsible Japanese worry about a direct attack on Japan in the absence of a worldwide conflagration. Accordingly, with the mission of Japanese military forces being limited to the defense of Japan alone, the problem of containing the Soviet threat militarily is seen as largely an American problem, and the argument that the buildup of Japan's own defense capabilities would permit the United States to shift more of its forces to protect allied interests in the Indian Ocean area tends to be treated more as a question of managing Japanese-American political relations than of national security policy as such.

As a consequence, the spectrum of opinion in regard to Japan's military response to the Soviet threat among those who favor continued alliance with the United States, and who in turn represent the overwhelming majority among the mainstream leadership, is relatively
narrow, stretching on one side from those who see little if any significant Japanese military role in countering Soviet military power and who favor doing no more than is minimally necessary to keep differences with the United States on the issue of defense spending within tolerable bounds, to those at the other end who see a more positive role for Japan in supplementing U.S. forces, mainly by upgrading Japan's naval and air-defense strength. But even the advocates of this latter position call for relatively modest increases in Japanese military expenditures.

There are, to be sure, others who advocate a major rapprochement effort to meet the Soviet threat. One of the characteristics, in fact, of the so-called "defense debate" today that differentiates it from earlier controversies over defense policy is the extent to which it revolves around differences among people generally associated with the conservative camp rather than between "conservative idealists" on the one hand and "progressive realists" on the other, as was generally the case in former years. Those advocating the gradual buildup of Japan's conventional self-defense capabilities and close alliance with the United States are now being challenged not only from the left, but from voices on the right that argue for a more fully "autonomous" defense policy, i.e., one in which Japan need not depend on the United States to defend it against large scale conventional attack or, in the views of the supporters of autonomous defense, against nuclear war as well.

But it is hard to imagine how the advocates of this autonomous defense position, who presently constitute a small though vocal minority, could obtain dominant influence in the absence of a broad public perception of an American "betrayal" of its commitments. Those Americans who see advantages in Japan's becoming a major military power fail to take into consideration, in my view, the process through which Japanese opinion would have to move to arrive at a consensus to support such a posture and the extreme tension it would reflect and reinforce in U.S.-Japan relations.

But insofar as mainstream Japanese perceptions are concerned, while they tend to result in downplaying the relevance of Japanese military countermeasures to deal with the threat posed by the Soviet Union, they also incline toward a lesser interest in independently pursuing détente policies than is evident in many Western European countries. Japan did not derive the direct benefits from détente that such countries as West Germany obtained, and it does not perceive in its own bilateral Soviet relations the trade-off between détente and military confrontation that underscores so much of the European approach toward the Soviet Union. It is largely because it has lesser direct stakes in détente that Japan was more forthcoming than several major European states in supporting American policy in imposing economic sanctions on the Soviet Union in the aftermath of the Afghanistan invasion. Japan would not, in my estimation, go along entirely with a totally confrontationist U.S. policy, particularly if major European states opposed it, but it is unlikely to seek its own accommodation with the Soviet Union at the cost of serious friction in relations with the United States.

Moreover, Japanese perceptions of the Soviet threat need to be seen in the context of Japanese threat perception more generally. These perceptions differ rather fundamentally from those of Americans inasmuch as they derive from anxieties about continued access to the raw materials, energy and food resources that are the lifeline of the Japanese economy rather than from challenges to its world position in political and military terms. While there is broad Japanese recognition of the dangers that would attend the extension of Soviet hegemony to areas that are vital sources of supplies, there is also evident considerable skepticism that the containment of Soviet power alone would remove the vulnerabilities inherent in the Japanese economy. Thus, the strong tendency in Japan is to view the Soviet threat as but one among many disconnected threats to Japanese interests and to resist a global strategic view in which the Soviet threat is paramount. The challenge that these attitudes create for Japanese foreign policy makers is to devise a set of policies that responds to Japanese security needs—including the need for the United States to maintain military balance with the Soviet Union—and that also responds to American determination to have its allies share more responsibility in securing the interests that are common to them all.

This brings us to the Japanese-American relationship, a relationship that despite the changes that have occurred in international policies over the past decade and more, remains the pivotal one in Japanese foreign relations. In contrast to differences in current United States and Japanese views concerning appropriate military policies, there is a broad area of commonality and complementarity in Japanese and American diplomatic and economic policies—whether the issue be economic reprisals against the Soviet Union following its invasion of Afghanistan, support for the economic development of China and Southeast Asia and for greater cooperation among the ASEAN states, commitment to an international economic system based on free trade or, to cite perhaps the most sensitive issue, policies toward the Middle East. It is worth noting that Japan, although it has differed with the United States in seeking accommodation with oil producing states in the Middle East, has supported the Camp David accords and avoided diplomatic initiatives that would complicate rather than facilitate the resolution of the Arab-Israeli conflict. There has been less strain and divergence in American and Japanese Middle East policies than one might
have expected considering the differences in American and Japanese interests and in the history of their involvement in the area.

This is not to say, I should add, that developments in the Middle East could not prove to have a devastating impact on the United States-Japanese relationship should Japan have to make a choice between accommodation with oil-producing states and alliance with the United States. Specific issues of stockpiling, the sharing of oil resources in an emergency, cooperation in the development of alternative energy sources and the like are matters that go beyond the scope of this essay, but they obviously deserve being treated as a major, if not the single most central issue on the agenda of U.S.-Japan relations in this decade.

Whether at the level of political and bureaucratic elites or among the general public, recognition of the importance of the U.S. relationship has deepened and spread across the political spectrum. This point is worth stressing. The historically significant development since the revision of the Security Treaty in 1960 is not to be found in disputes that have marked and marred U.S.-Japan economic and political relations—whether on questions of textiles, automobile trade or defense spending—but in the development of greater Japanese autonomy in international affairs in tandem with, rather than outside of, or in opposition to, alliance with the United States. Although there are elements on both the left and right that reject the notion that autonomy in foreign affairs is compatible with the American alliance, majority opinion clearly has moved in the opposite direction.

This is not to deny that attitudes toward the United States are complex and somewhat contradictory. The controversy over the word “alliance” in the Reagan-Suzuki Joint Communiqué, though it resulted mainly from the subsequent domestic difficulties encountered by a political leader inexperienced in foreign affairs and perhaps overly sensitive to media opinion, also reflected, however, many of the complexities woven into the fabric of Japanese attitudes toward the United States. Support for the relationship and the desire for greater equality in it tend to be combined with resentment against the United States for forcing on Japan difficult policy choices that it would rather not confront; and the desire to act autonomously in foreign affairs coexists with criticism of the United States for failing to maintain what in retrospect increasingly is viewed as having been a stable international political and economic order under a regime of Pax Americana and for demanding that Japan assume a greater share of the burden for maintaining and strengthening the relationship. But few Japanese would want to return to an earlier year when the relationship was characterized as much by Japanese weakness as by American strength, and the present recognition in both countries that the U.S. and Japan indeed partake of an alliance that is based on shared values and common interests is surely the factor of long-term significance, not the flap that followed the signing of the Joint Communiqué.

A lingering reluctance to break with earlier postwar orientations, however, remains a characteristic of leadership behavior and public attitudes in both countries to some extent. While Japanese rightfully resent, for example, what often has been the exercise of heavy-handed American pressure and a resort to public rhetoric to extract Japanese concessions, Japanese decision-making processes often depend precisely on such outside pressure to serve as the catalyst for forging policy agreement, and for relighting the political leadership of the need to take full responsibility for decisions that are controversial or unpopular. This pattern is particularly evident in regard to defense policy, and it has been a characteristic of security relations since the early fifties. The combination of broad public recognition of the importance of the U.S. relationship and opposition to major military efforts contributes strongly to a propensity to treat military issues as a dimension of the U.S.-Japan political relationship, and to encourage a pattern whereby the United States sets demands which are fed through the Japanese political system to produce concessions. Although such approaches invariably leave a residue of bitterness and dissatisfaction on both sides, they often prove to be a virtually irresistible temptation for American leaders, particularly since such tactics, by showing that the United States is being “tough” with its allies on defense spending, also serves to help rally domestic support behind its own defense. They also contribute to the Japanese penchant for publicizing American positions even when the attempt is made to convey them privately, since public awareness of them is regarded as essential for forging agreement in the domestic policy process. Breaking out of this pattern, which has long been a feature of U.S.-Japan relations, which is intimately intertwined in the domestic politics of both countries, and which largely accounts for the tendency in the relationship for disputes over specific issues to escalate into major political controversy, is a major challenge to policymakers in both countries in managing their alliance politics in this decade.

Whether in regard to public policy toward the United States or on other issues, the structural, attitudinal, and perceptual factors which underwrite current Japanese foreign policy are not simply the product of earlier postwar orientations that are bound to fade as Japan “comes out of its shell” or as the moratorium mentality that allegedly has afflicted Japan since the end of the war disappears. On the contrary, the central thrust of Japanese foreign policy thinking, it seems to me, is in the direction of confirming current basic orientations and the challenge of Japan’s leaders is one of building
on them, rather than moving markedly away from them, in seeking an expanded role in international affairs. The concept of "comprehensive security," with its emphasis on the multiple threats to Japanese interests and the need for a comprehensive foreign policy program to deal with them, represents an effort to define such a framework and to clarify those areas where Japan can make a significant contribution in international affairs. What is to be regretted is not that Japan might be moving in this direction rather than toward support for a major military effort but that, with the death of Prime Minister Ohira, the momentum that had been building to translate the concept of comprehensive security into a concrete political program appears to have been lost, at least for the time being.

II. Challenges to Alliance Politics

Japan's basic foreign policy orientations, I would argue, are compatible with American national interests and provide a base upon which the bilateral relationship can be further strengthened. The threats to the security interests of the United States and Japan are comprehensive in nature and there is ample opportunity for a more active Japanese role in international affairs along with expanded U.S.-Japan cooperation given a Japanese willingness to make hard choices about priorities and to accept the risks such choices bring both in domestic politics and in foreign relations, and an American willingness to recognize that there is value in sharing responsibilities across functional lines and that the complexities of international affairs cannot be reduced to a single threat and a uni-dimensional approach to deal with it.

The relevant challenge to American policymakers in this decade is not one of encouraging, much less pushing, Japan to depart in a basic fashion from its current course, particularly in the area of defense policy. The turn in attitudes and perceptions that would be necessary to bring about a major shift in basic Japanese security policies would reflect changes in Japan's external environment which it would hardly be in the interest of the United States, or anyone else, to see occur. In all likelihood, they would involve not only a state of extreme tension in Japanese-Soviet relations (which is hardly conceivable in the absence of a similar degree of tension in U.S. and European relations with Moscow) but a radical decline in the tenor of the bilateral relationship and in perceptions of American capabilities and credibility not only in Japan but throughout the Asian region. Nonetheless, there can be little doubt but that there will continue to be a degree of friction in U.S.-Japan relations over Japanese defense policy. There is a wide gap separating dominant American and Japanese views on this issue and there is little likelihood that this gap will be closed quickly. But the 1970s
showed how disputes over specific economic problems could escalate rapidly into major political controversy and rivet the attention of the media and the political leadership in both countries. It is important that that pattern not be transported to the security dimension of the relationship.

Japan of course has the economic capacity to spend more on defense, but the important question is for what purposes. At the present time Japan has the world’s eighth largest defense budget in terms of absolute amount of expenditures and ranks third in defense spending, after West Germany and Saudi Arabia, among countries that do not possess nuclear weapons. Its navy has more convoy escorts, naval aircraft and minesweepers than the U.S. Seventh Fleet and three times as many destroyers. The air force has more combat aircraft than the U.S. Fifth Air Force, and the army has a larger ground force than the United States maintains in the entire Far East. And while Japan can do more to increase its defensive military capabilities, particularly in air and naval defense, it is unlikely that such efforts would translate into a major boost in the percentage of GNP allotted to defense expenditures given the limitation on the mission of Japanese military forces to the defense of Japanese territories and their surrounding sea and air spaces.

Moreover, much of what is needed to upgrade the quality of Japanese forces involves not only expensive new weapons procurement but more mundane, but not any less crucial, issues of creating an integrated system of command and control, establishing procedures to be used in emergency, and strengthening communications and logistics operations. Insofar as United States policy is concerned efforts should be concentrated on increasing military cooperation in specific areas and not in trying to get the Japanese simply to “do more.” Increases in Japanese defense expenditures, in other words, may well be the consequence of close military cooperation but they should not be its goal.

Preoccupation with the issue of defense spending tends to have a largely diversionary effect in both countries. In Japan, as noted earlier, myopic concern with American views on Japanese defense policy tends to contribute to a propensity to define questions of military security in terms of how much more Japan should do to minimally satisfy American demands and to divert attention away from what is more critically important, namely the need for Japan to formulate and articulate a coherent national security policy, comprehensive or otherwise. The reluctance to face up to this issue, particularly when doing so might require Japan to clarify differences in American and Japanese views, is reflected in the effort to seek understanding for its position by making legalistic arguments about the constraints imposed by Article Nine, when the issue is the constraints imposed by public unwillingness to support a larger military role, and by stressing the need for time to educate public opinion to the necessity of greater military efforts, thereby at one and the same time raising expectations that Japanese policy will change if enough pressure is exerted to move public opinion forward and conveying the impression that Japan is simply attempting to postpone coming to grips with an issue of major importance in the relationship.

In the United States, concern with Japanese budgetary expenditures on defense effectively diverts attention from consideration of long-term issues and objectives, whether they be the role the United States would like, or not like, to see Japan play in regional security or the role it sees for itself in the future in East Asian security affairs. There is to my mind no substitute for American power in the Asian region: in maintaining stability in Korea, in supporting efforts of ASEAN states to improve their own security, in enhancing Chinese security against the Soviet Union or, for that matter, in encouraging Japanese efforts to gradually improve its own conventional self-defense capabilities within the context of alliance with the United States. The argument put forward by some American observers that Japan should supplement American military power by expanding the mission of its self-defense forces to protect sea lanes far from Japanese shores ignores not only the domestic constraints on Japanese policy, but the fact that any Japanese regional security role, under whatever guise, would represent a major reallocation of the power balance in East Asia in a way that would not only raise the level of tension with the Soviet Union but also arouse concerns throughout Asia about both Japanese and American intentions.

The challenge to the United States in seeking to strengthen further its relationship with Japan is to find constructive avenues for cooperation between the world’s two wealthiest democracies in securing their mutual and common interests. Preoccupation with the issue of defense spending hinders such an effort and, in addition, creates in Japan and elsewhere exaggerated perceptions of American weakness and uncertainties about American intentions. But to find and maximize opportunities for cooperation requires the establishment of a much more extensively structured and constantly reinforced pattern of bilateral consultations on a broad range of regional and global issues than currently exists.

In neither country at the present time is there as firm and unambiguous a commitment to such consultations as the popular rhetoric would suggest. Japanese tend to want to be consulted on those issues where policy formulated in Washington in the absence of consultations might force on them policies that incur risks and costs, but to eschew consultations where the process of consul-
tation itself involves risks either in its relations with other countries or in the domestic criticism that a particular policy decision might draw down on it. In the United States consultation is often viewed as a question of prior notification or as a problem of working out the details for sharing responsibility in implementing policy decisions made in Washington. The notion that a consultative relationship, if it is to be effective, must involve consultations in the process of making decisions as well as carrying them out encounters considerable resistance.

The establishment of a more structured and meaningful consultative relationship requires a willingness to share information and responsibility, to take more than a short-run view of the agenda of policy issues, to take clear positions on important international issues that lie outside the confines of the bilateral relationship, and to allocate to the process the time and the human resources necessary to make it work. As difficult as this is and as inadequate as the actual results may be, the effort to move in this direction is of overarching importance if misperception and misunderstanding are to be minimized; if the strains created by divergences in policies are to be contained and on occasion if divergences are to be turned into advantage in securing common interests; if close personal relationships are to be forged between the leaders of the two countries and particularly with the emerging new generation of Japanese political leaders; and, above all, if a relationship is to be developed in which autonomy and alliance are seen as mutually reinforcing rather than conflictual elements in the pursuit of national interests.

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September 8, 1981, is the thirtieth anniversary of the signing of the San Francisco Peace Treaty with Japan and the Japan—U.S. Security Treaty. The occasion not only marked the official termination of the state of war between the Allied Powers and Japan, but, more importantly, it set the basic direction of Japan's postwar foreign policy as a committed member of the free world—a policy which Japan has firmly maintained ever since. This political framework within which Japan reentered the international community was no doubt largely a product of post-World War II power relations, the dominant feature of which was of course the Cold War. It was equally true, however, that given the prevailing international environment in the early 1950s, Japan's commitment to the free world, guaranteed by her security ties with America, was wholly consistent both with Japan's own security needs and with her aspiration to rebuild the nation as a free and democratic society. The wisdom of this commitment has been proven beyond any doubt over the ensuing three decades, during which Japan has successfully achieved the status of a major industrial democracy of the world. It is not the main purpose of this article to analyze in detail the history of Japan's postwar foreign policy. It would nevertheless be useful to review briefly the salient features of the evolution that took place over the past 30 years in Japan's outlook towards the world and her foreign policy based on such outlook inasmuch as a country's responses to current and future issues are inevitably affected and often constrained by its past experiences.

The Past Thirty Years: From “Passive Beneficiary” to “Active Creator”

Throughout the 1950s and 1960s, Japan remained very much an inner-oriented nation, as her energy and resources had to be directed almost exclusively to the domestic goals of economic reconstruction and growth.

Thus, Japanese foreign policy during this period was geared primarily to solving bilateral problems unrelated to global issues. Japan, for example, began to implement in the 1960s a modest aid program of her own, but sharing international responsibilities with other industrialized nations within the context of the global North-South issue was still beyond the outlook of the average Japanese. Two key factors made it possible for Japan to maintain her low international posture, which both the external environment and the domestic circumstances required:

1) the American security umbrella effectively shielded Japan from any potential external threat; and

2) America, with her overwhelming economic power, fully supported the free and open international trading system, which played a crucial role in promoting Japan's economic recovery and growth.

The succeeding decade of the 1970s brought about a gradual but profound change in the Japanese perception of the international environment and that of her own role in the world. On the one hand, the settlement of major postwar bilateral problems, including in particular the normalization of Sino-Japanese relations in 1972, freed the Japanese from their inward-looking postwar mentality, permitting them to take a more positive view of Japan's role in international affairs. At the same time, the relative decline of the global power and influence of America, together with the impact of the 1973 oil crisis, compelled Japan to recognize the inescapable reality that her newly acquired status as a major industrial democracy entailed certain international responsibilities to be shared with America and Western Europe. Such recognition led to Japan’s active participation in the Tokyo Round of Multilateral Trade Negotiations and in the annual series of summit talks, which made significant contributions to the management of the world economy in the difficult period following the oil crisis. The changing Japanese conception of her own international role was further reflected in the public commitment of the Japanese government in 1977 to the goal of more than doubling the volume of its official development assistance in five years. In the same year, Prime Minister Fukuda, in enunciating

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Japan’s Asian policy during his official visit to Southeast Asia, stressed his country’s readiness to contribute to the peace and prosperity of the region while reaffirming its resolve not to become a major military power.

Towards the end of 1979, the world witnessed two ominous events which seemed to portend the nature of the common challenge the industrial democracies of the West would have to face in the 1980s—the seizure of American hostages in Iran and the Soviet military intervention in Afghanistan. They were different symptoms of a twofold challenge which, if not met effectively, would pose a real danger not only to the West but to the entire world:

(1) deep-rooted political and social instabilities in the third world, which, in the case of the hostage crisis in Iran, threatened to undermine the basic legal fabric of the international community; and

(2) the willingness and ability of the Soviet Union to exploit such instabilities in the third world for her own advantage by the blatant use of force, if opportunities permit, as in the case of Afghanistan. It was for this reason that the events called for coordinated responses of the industrial democracies of the West.

Japan’s forthright response to these two events represented a marked departure from her cautious policy in the past of limiting her role in political issues of a global nature. In January last year, the late Prime Minister Ohira, referring to the measures taken by his government in response to the Soviet invasion in Afghanistan, stated in his major policy speech before the Diet, “I believe that we must not shun these measures even if they involve sacrifices on our part.” In his recent address to the Japan Society in New York, Prime Minister Suzuki remarked, “Transcending our passive posture of the past, our aim shall be to fulfill on our own initiative our international responsibilities to reinforce and consolidate the peace in our increasingly vulnerable world community. From passive beneficiary to active creator: This may be Japan’s third fresh start.” This new policy stance is based on the emerging recognition that Japan can no longer remain a “passive beneficiary” of peace under the American security umbrella but that she must actively share global responsibilities with America and Western Europe on matters relating to international peace and security. The legacies of Pax Americana are finally being replaced in the Japanese perception of the world by a new structure of trilateral cooperation among America, Western Europe and Japan as the dimension of Japan’s international role, conceived by the Japanese themselves, gradually expands beyond East Asia and becomes more global.

Trilateral Cooperation in the Future: Economic, Political and Military Dimensions

Can Japan play a meaningful role in trilateral cooperation, particularly on global issues of peace and security? There is no easy answer to this question, since there exist some constraining factors which will inevitably affect the course of Japanese foreign policy in the coming years.

First, whether the newly emerging conception of Japan’s role in trilateral cooperation can be translated into a lasting policy very much depends on the degree of public acceptance in Japan of the domestic cost of such a policy. There seems to be a growing public recognition in Japan that peace and security can no longer be obtained free of cost when international power relations have become increasingly unstable. The Japanese public, for example, largely accepted the policy measures taken by the government in response to the Iranian and Afghan crises. In the current fiscal year, the annual rate of increase in defense expenditures is going to exceed for the first time that of social welfare expenditures. Today, however, when administrative and fiscal reforms are widely considered to be a national imperative, the political cost of shifting budgetary priorities from domestic welfare programs to security-related items becomes very high, as in any democratic society. Nevertheless, the government is expected to plan a substantial increase in its defense and aid expenditures for fiscal 1982 as major exceptions to the across-the-board ceiling of “zero increase” to be imposed on the new draft budget. To what extent a public consensus will emerge in support of such government initiatives remains to be seen. With regard to the defense issue, it should be added that Japan will continue to improve steadily her defense capabilities but will remain committed to the policy of neither becoming a major military power nor assuming a regional military role. This is not to say that she shuns contributions to the peace and security of her Asian neighbors by other means. But Japan’s commitment to non-military roles except for the defense of her own territory and adjacent waters will be maintained because firstly, a firm domestic consensus exists in support of this policy; and, secondly, Japan’s pursuing a different course would be viewed by her neighbors as a highly destabilizing factor inconsistent with the security needs of East Asia.

Secondly, trilateral cooperation, by definition, presupposes political cooperation between Japan and Western Europe, which was practically nonexistent until a year or two ago. Recently the events in Iran and Afghanistan, as well as the Polish crisis, provided rare opportunities for mutual consultations for the purpose of coordinating their respective policies. If trilateral cooperation is to function effectively, however, it is ob-
vious that relations between Japan and Europe must be further strengthened and something more than ad hoc consultations is necessary to this end. This will not be easy to bring about as long as trade frictions dominate the European view of Japan, which tends to be highly one-sided. Nevertheless, as Japan becomes accustomed to a broadened concept of her own international role and as such evolution is increasingly reflected in specific government policies, one may expect a growing mutuality of interest in truly "trilateral" cooperation based on more balanced relations among the three partners. It must be recognized, in any case, that fostering closer Euro-Japanese relations can be achieved only through a continuing process of conscious efforts on both sides, including mutual education, at government as well as private levels.

Finally, the future of Japanese participation in trilateral cooperation will be determined, to a great extent, by the persuasiveness of the leadership to be exercised by the new American Administration. Although one should not expect from today's America the dominating international influence she once possessed, America as a global power must demonstrate convincing leadership to her allies and partners if the solidarity of the Western democracies is to be effectively maintained. In this regard, the revitalization of the American economy is crucial, since no American foreign policy can have much credibility without a strong economy. Thus, President Reagan's domestic leadership, which successfully marshalled the support of the Congress and the American people for his bold economic programs, is encouraging. In the field of foreign policy, however, it seems that there will be some more months before specific policies emerge. Meanwhile, a certain amount of anxiety arises as statements and remarks of American officials without much specificity are bound to influence foreign perceptions, which in turn will affect the substance of international relations.

As we wait for the closing of this American interlude, two points may be worth mentioning: (1) Few can dispute the need for a militarily strong America and improved defense capabilities of her allies in view of the ever-increasing military power of the Soviet Union. On the other hand, no one can deny the legitimate interest of the West in averting an endless arms race and in reducing the danger of a global East-West confrontation. America and her allies, therefore, must work out coordinated policies on the basis of a common strategy to build more stable and controllable relations with the Soviet Union. Exclusive reliance on military power by the West can only enhance the effectiveness of the so-called Soviet peace offensive. A "strong" America must have a credible Soviet policy, without which Western solidarity would be difficult to maintain. For Japan, which must live with the Soviet Union as a neighbor, this is of vital importance. (2) The Soviet Union is rarely regarded as the primary source of threat by developing countries because of their more immediate concern over domestic instabilities and relations with their regional adversaries. Hence a global strategic approach to the third world tends to lose credibility, as it sometimes has little relevance to local situations. For this reason, relations between the industrial democracies of the West and the third world cannot rely on the negative ground of the Soviet threat but should be developed on the more positive basis of mutual interest in interdependence and solidarity. An active American interest in promoting such relations will undoubtedly increase the relevance of trilateral cooperation in the 1980s and will be a strong incentive for Japan to assume greater responsibilities in this field. Sharing the global responsibilities within the framework of trilateral cooperation is a novel concept for Japan—a concept which is just beginning to take root in the Japanese perception of her own role in the world. Trilateral cooperation, particularly in the political field, is also a new experiment for America and Europe. If, however, we are going to pursue, as we must, our common objective of securing peace, stability and prosperity in today's increasingly turbulent and fragmented world, we have no choice but to commit ourselves to building a solid structure of cooperation. Although this choice may seem to entail a difficult and painstakingly slow process, nothing would be more costly in terms of our mutual interest than for us to succumb to the seemingly less burdensome and more tempting alternative of pursuing uncoordinated autonomous policies.

1 Although the Security Treaty was extensively revised in 1960, its basic political character has remained unaltered since its original conclusion.

2 The only major postwar bilateral problem that remained unresolved was the territorial issue with the Soviet Union.

3 The target period was subsequently changed to three years in 1978, and the goal was more than achieved in 1980.

4 Japan acted in full cooperation with America and Western Europe to impose economic sanctions on Iran, an important source of oil supply, and also took a series of measures vis-à-vis the Soviet Union, including the boycott of the Moscow Olympics and restraints on the extension of official credits.

5 The first "fresh start" refers to the opening of Japan to the outside world in the last days of the Tokugawa Shogunate and the second to Japan's reconstruction efforts in the immediate postwar years.

6 The government intends to more than double the cumulative volume of its official development assistance in 1981-85 as compared to the preceding five-year period.

7 Japanese economic assistance to Turkey is one example.
Rising Deficits in the EEC Member States' Balance of Trade

Since the 1970s commerce between Japan and the member states of the European Economic Community has become increasingly imbalanced. In 1973, the deficit in the EEC's balance of trade amounted to 1.3 billion dollars. By 1980 it had reached 11 billion dollars. This negative trend can be traced to the sudden swell of Japanese exports in certain product lines and the considerably smaller rise of Japanese imports from Western Europe.

Japan: Competitor to Be Taken Seriously

Japan's development into the role of serious competitor on European and third country markets has long been in the making. In the late 1950s and early 1960s, it was the strong Japanese textile industry which was the cause of great concern for European counterparts. In the 1960s and early 1970s pressure was applied to European shipyards. Japanese penetration of steel, camera, optics, ball bearing, and consumer electronics markets began in the mid-1970s. Today, the automobile and mechanical engineering areas are the points of focus. It has, nevertheless, taken quite some time for European industry to discern and face the full dimensions of the Japanese challenge.

Differences in Japan's and Western Europe's Import and Export Structures

Among themselves and together with the United States, the industrialized countries of the EEC engage in intra-industrial commerce in a broad range of finished products. This has contributed considerably to raising the level of our prosperity. By contrast, Japan has tended (at least in past years) to seek its trade advantages by a division of labor with national economies which are less developed and which because of the greater availability

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Japan and the Member States of the European Community: Towards a More Balanced Partnership

of commodities, energy, and labor resources enjoy comparative production advantages over Japan. In 1980, the share of overall imports accounted for by manufactured goods showed a declining trend at only 22.8 percent, a figure which placed Japan behind Turkey in second-to-last position among the OECD countries. For the EEC member states and for North America, this means inadequate access of finished products to the Japanese market.

Two-Way Street Between Japan and Western Europe

Japan's trade posture is too one-sided; the country should to a considerably greater extent be integrated into the world import market for finished goods. Japan should now take on greater responsibility and display cooperation within the important trilateral political and economic relationship among the United States, EEC, and Japan. And it is increasingly prepared to do so. In the face of increasingly strained world economic conditions, this is extremely important.

Japanese Export Moderation in Sensitive Areas

To avoid excessive import pressures on Western Europe and to facilitate the necessary structural adjustment of our industry, Japan should pursue a moderate export policy in sensitive areas such as the automobile and consumer electronics branches. The object of our demands is not to build a wall around Western European markets. Because of the dependence of our economies on exports, we could not afford to adopt an island mentality. Nor would protecting domestic markets make it any easier to win the increasingly difficult competition against Japan on third country markets.

An ex post monitoring of Japanese exports of automobiles, television sets and tubes, and machine tools was established for the Community by resolution of the EEC Ministerial Council dated February 17, 1981. A considerable rise in exports was still to be noted for the initial months of the year. It should be pointed out that the Council resolution is not a "dirigist" measure and that its only purpose is the more rapid acquisition of information.

Voluntary restraint agreements prescribing volumes and time periods to be observed by Japan in the export
of certain products should not be imposed, since as a rule objectives cannot be reached in this manner and the extension of such agreements is nearly inevitable. This is why I criticized the American-Japanese arrangement on automobiles as a protectionistic measure. The subsequent chain reaction (in Canada, Belgium, and Sweden, for example) has unfortunately proven me right.

At the moment, the individual EEC countries maintain various import arrangements with widely differing effects to deal with the influx of Japanese automobiles, as the automotive industry is the sector most affected by Japanese imports at present. In 1980, Japanese exports to the Benelux countries and to the Federal Republic of Germany rose sharply as a result of these countries' liberal import policies. Because of this, on the occasion of my visit to Tokyo at the beginning of June of this year, I once again requested that Japan show moderation in export policy. The responsible officials in Japan complied with my request.

In the coming autumn, the EEC Commission is going to conduct further talks with the Japanese Government on the export of automobiles to the EEC in 1982. We should attempt to adopt a common EEC position before these talks. The common policy should aim to phase out the different regulations now current in individual EEC countries, not to bundle them together as a common EEC “package.”

Greater De Facto Opening of the Japanese Market

Japan has reduced its tariffs and restrictions on the volume of imports to an extent comparable to that of other industrial countries. The main barriers to increased accessibility of the market are a mentality adverse to imports and the complicated Japanese distribution system. The readiness with which we in the West purchase foreign finished goods which we find attractive because of their technology, price, and design is not matched by the Japanese. The fact that Japanese products have so easily acquired a foothold on our markets derives in no small measure from this readiness. Until now, Japan's import of finished goods has essentially remained within the realm of luxury items and technologically sophisticated products in which Japanese manufacturers have not yet shown comparable progress.

Owing in part to our admonitions, the Japanese are increasingly becoming aware of the fact that their market is not adequately accessible. On July 14, 1981, Minister of Trade and Industry Rokusuke Tanaka released the declaration on increasing the import of finished goods in keeping with his announcement made during talks with the EEC Commission in June of this year.

This declaration, details of which Minister Tanaka is presently discussing with the Japanese business community, attacks the problem at its core. Such conversations are especially important within the framework of the Japanese consensus principle if changes are to be introduced gradually.

We should now take the Japanese at their word and undertake a greater effort to export to the Japanese market. Previous attempts have been inadequate. Western European industry has not yet fully discovered the large though difficult Japanese market. Our exporters have for too long been mainly concerned and satisfied only with the European/North American markets.

The Japanese market must be systematically analysed; it cannot be acquired in passing. The complicated Japanese distribution system must be made more comprehensive in order to provoke the interest of additional companies and to avoid unnecessary initial losses. In Japan, success often depends on the distribution system selected and on the Japanese partner in the joint venture. It is therefore highly commendable that JETRO (Japan External Trade Organization), a subordinate authority of the Ministry of Trade and Industry, recently issued an instructive brochure entitled “Keys to Success in Japan’s Industrial Goods Market,” offering practical advice on sales. This type of activity must be intensified from our side. We should further turn our attention to obsolete market practices such as the sole agents system, possibly with the assistance of the Japanese Fair Trade Commission. Together with the Japanese Government, we should attempt to overcome administrative difficulties, for instance, the certification of test procedures or laboratory results; and the product-related instead of the importer-related licensing of models as has been the case until now. The same applies to the implementation in Japan of international agreements on safety regulations.

More Innovation, More Orientation Toward Performance

In order to maintain our position in the world economy, both entrepreneurs and employees will have to mount a greater effort. Since our industry is subject to distinctly greater cost-burdens per effective working hour than Japanese industry, I can see no practical alternative.

Research and development should be intensified so as to regain lost ground in the sale of new products. This includes observation of the Japanese forward-looking R & D program so as to be able to react quickly and to anticipate Japanese export campaigns in Western Europe and on third country markets.

Japan's R & D efforts aim toward fundamental innovations which will most likely have resounding effects on the structure of tomorrow's world economy. According to American estimates, the Japanese language, with
its present share of more than 15 percent of the world’s technical literature, is an important new publishing language which is, however, scarcely read in Western Europe. Such sources must be exploited.

On the average, Western European society is today far less performance- and success-oriented than that of Japan. No other country but Japan can, for example, boast of such slight production losses. Technology is perceived as an ally, not as an opponent. It is naturally not possible for us to adopt traditional Japanese values such as the strong feeling of group coherence. But in the field of organization, we can adopt some aspects of the Japanese system. Japanese companies in the United States and Great Britain have shown that such “transfers” are, indeed, possible. This particularly applies to corporate target planning and systematic translation into corporate strategies and market conquest, where Japan has for several years shown us how to succeed.

On the Path toward Genuine Partnership

To a rather decisive extent, Western Europe and Japan owe their economic success to the liberal orientation of the world economy. Together with North America, Western Europe and Japan bear a common responsibility to maintain this free system of world trade, to further develop it, and to combat protectionist strivings. This common objective was recently confirmed at the Ottawa Summit. At slow economic growth, balance of payments deficits, and growing unemployment, this is surely no easy task.

Increasing protectionism, whether overt or covert, offers no solution. The outcome of the resulting vicious circle will of necessity be strongly reduced world trade with considerably less prosperity for all. The trade problems between Western Europe and Japan are to be viewed in this larger context; they are to be solved with patience and with a sense of proportion.
The powerful commercial challenge from Japan has found many American industries vulnerable and has brought about major changes in the character of Japan–U.S. relations. It has given rise to a whole new set of problems, some of them potentially damaging. In May, 1979, President Carter and the late Prime Minister Ohira, concerned about the increasing frequency and severity of trade disputes between the United States and Japan, appointed eight private citizens of the two countries to examine the bilateral economic relationship over the long run and make recommendations to strengthen it. I served as co-chairman, and my counterpart is Ambassador Nobuhiko Ushiba, former State Minister for External Economic Affairs. Our commission, called the Japan–United States Economic Relations Group, has conducted research and reviewed issues over the past three years. We have been aided by a small staff in each country and by the commissioned background studies of several highly qualified scholars, lawyers, and specialists. The Report of the Group was presented to the President and the Prime Minister in January, 1981.*

The Group is now preparing a final report before dissolving in September.

My experience serving on this commission has convinced me that, though it may sound commonplace to say so, no difficulty in Japan–U.S. relations is so serious that it cannot be dealt with through consultations based on mutual interests. Certainly, relations are plagued by mistaken and outdated perceptions of each country in the other, by inadequate U.S. economic performance, by restricted opportunities for foreign participation in the Japanese economy, and, all too often, by failures—both governmental and private. American and Japanese—to face up to tough problems. Nevertheless, these and other difficulties can be overcome if Japanese and Americans undertake to communicate with one another in full awareness of the benefits which their extensive and diverse commercial intercourse brings to both sides. The greatest threat to Japan–U.S. relations today is insufficient appreciation of the deep-rootedness of our mutual interests.

**Why Strain in Japan–U.S. Relations?**

What, precisely, is the nature of the problems Japan and the United States face, and what is the nature of the interests which bind these two nations together? Let us answer the former question first. The cause of the present difficulties in Japan–U.S. economic relations is, ironically, a phenomenon which virtually everyone applauds: Japan’s extraordinary economic growth. In speed and scope Japan’s economic achievement is truly a miracle, though one must doubt the appropriateness of labeling a miracle what is so obviously the product of careful planning, sound leadership, and tenacious hard work. Two decades ago Japan had a low-labor-cost economy and a per capita GNP only one-sixth that of the United States. But today Japan and the United States are economic equals. They are the two largest economic powers in the free world, and each is the other’s largest overseas trading partner. The value of Japan–U.S. trade in 1960 was 2.5 billion dollars; a decade later it had quadrupled to 10 billion dollars; and last year it surpassed 50 billion dollars.

Obviously, Japan’s rapid rise to economic power has necessitated major adjustments in Japan–U.S. economic relations. Product trading patterns have shifted markedly and suddenly. Currency exchange rates have fluctuated. Bilateral merchandise trade and current accounts have been chronically out of balance, with occasional plunges to deep deficits for the U.S. The result has often been economic disruption and political friction in both countries.

In the early 1970s our two nations wrangled over textiles. That was followed by a dispute over color televisions. In the late 1970s Japan’s huge trade surplus with the U.S. was a pressing issue, with trigger price protection for the U.S. steel industry also garnering considerable attention. Last year and this year the auto question has plagued us. In each case issues flared up
and then subsided. Now, it appears, the auto issue is largely behind us.

Looking ahead, however, we can anticipate jarring dislocations in computers, in semiconductors, in telecommunications, and perhaps in a few other industries as well. Accordingly we can also expect that issues of commercial competition—which ought to be resolved in the marketplace—will continue to be injected into the political process. They will, that is, unless our two countries learn to manage our bilateral economic relations better.

**For Better Bilateral Relations**

What does it mean to “manage our relations better”? First of all, Japanese and American officials, businessmen, and labor leaders must strive to be more aware of what is happening in each other’s country. Beginning at the ministerial and cabinet level, there should be periodic joint meetings of core departments dealing with foreign relations, commerce, energy, agriculture, and monetary problems. There is also a pressing need for Japanese and American businessmen to consult on an industry-by-industry basis (consistent, of course, with the laws of each country) so that potential problems can be anticipated and planned for. Right now the large U.S. market is simply too attractive for successful Japanese companies to ignore. Good business sense demands that they establish a presence here. Nor can American companies any longer afford to disregard the potential of the Japanese market. This means that competition will increase, and that there will be losers as well as winners on both sides. In order to make the many adjustments which this competition will demand, Japanese and Americans will have to hold more international business conferences, go on more factory tours, exchange more officials at all levels, and invest more in each other’s industries. All these activities will help mitigate surprise, suspicion, and unfounded accusations of unfair competition.

One good example of the kind of interchange which is needed is the Eighteenth United States-Japan Businessmen’s Conference, which was held in New York this past June under the sponsorship of the Advisory Council on Japan–U.S. Economic Relations. Another example is the planned October meeting on U.S.–Japan relations sponsored by Keidanren and the Business Roundtable. In an interchange of a different sort, the Japan Productivity Center has invited representatives of the American Productivity Center to tour Japanese industries and discuss Japanese productivity techniques. It is hoped that this trip might lead to further cooperation, perhaps including joint studies in this field which is so essential to the industrial well-being of both countries. These and other forms of consultation are vital in—indeed, because the degree of communication between Japan and the United States is insufficient to meet the needs of today’s vigorous, often unsettling bilateral commercial activity.

Managing our relations better means, also, that both our governments should refrain from protecting declining industries. Instead, they should facilitate the movement of labor and capital from those industries into newer, expanding sectors. On the whole, the Japanese have a far better record on this score than do Americans. U.S. officials could learn especially valuable lessons by examining how Japanese business and government have cooperated in retraining workers for jobs in new high-technology and knowledge-intensive industries.

Our relations would be smoother, too, if there were greater sensitivity to the personal costs of certain business practices. For example, too often in the past, surges of Japanese exports have hit the U.S. like a tidal wave, with market shares shifting radically over the span of only a few months. This exporting style has sometimes imposed high social costs on certain American workers, companies, and communities. The suddenness of these shifts, leaving no time for satisfactory adjustment, has created pockets of strong resentment which would otherwise never have developed. Certainly, Japanese and American businessmen alike have to be aware of the special cultural problems which can arise when foreign products suddenly drive a local company out of business, or when foreign companies and foreign products are the agents of social change.

**Putting Trade Figures in Perspective**

Trade deficits have been another source of friction in Japan–U.S. relations in recent years. With this issue, simple misunderstanding plays a major role on both sides. Americans, especially, have tended to focus narrowly and excessively on the Japan–U.S. bilateral merchandise trade balance. This is both unrealistic and harmful. The United States should be concerned primarily about its trade and capital flows with the world as a whole. It should worry about trade flows with Japan only when the trade deficit with Japan is so large that it threatens the U.S. global current account balance. In 1977 and 1978 Americans did have reason to be concerned, because bilateral trade deficits with Japan of 8 and 11.5 billion dollars helped push the U.S. global trade account far out of balance, and even drove the U.S. global current account to record deficits of 14.1 and 14.3 billion dollars.

It should be noted, however, that the U.S. trade deficit with Japan—which is a regular annual deficit averaging billions of dollars—does not always endanger the U.S. global current accounts position, nor is it necessar—
ily a bad thing for Americans. Last year, for example, the U.S. global current account was in the black, while the bilateral trade deficit with Japan was nearly 10 billion dollars. Indeed, the trade deficit which the U.S. continually runs with Japan is largely inherent in the structures of the two economies. The Japanese must export manufactured goods in order to buy the energy, agricultural products, and raw materials they lack. The United States is a large market for these manufactured goods, purchasing one quarter of all Japanese exports, but the composition of all U.S. exports is very different from the composition of Japan's imports. For example, 40 per cent of Japan's import bill is for oil, and the United States exports only very minor amounts of oil. The United States has in recent years greatly increased exports of both raw materials and manufactured goods to Japan, and certainly there is every reason to expect further increases. But in the foreseeable future U.S. exports to Japan will not match Japanese exports to the U.S. because the present situation constitutes a generally efficient allocation of resources for both countries. Even with perfect access to Japanese markets the U.S. would run a trade deficit with Japan.

The Japanese, for their part, are also guilty of certain economic misconceptions. There is, for example, a tendency for Japanese officials to make solid trade surpluses and current account surpluses the objectives of government policy. In doing this they often deny their own citizens the benefits which a policy of nonintervention would bring. Moreover, constant pressure by Japan to attain high surpluses can adversely affect her trading partners and diminish her stock of goodwill in the world. This year the world economy is in the doldrums, but Japanese exports are nonetheless booming. Politically it is not a good time for Japan to ring up a large current account surplus, but that is what appears to be happening.

Japanese Markets Open or Closed?

Japan's reputation in the U.S. has suffered somewhat from the persistent American perception—partly accurate yet partly unjustified—that the Japanese government maintains a host of unfair obstacles to foreign products. There was a time when Japan's policies were highly protectionist across the board, and still today there are, for example, excessive tariffs on leather goods and highly restrictive quotas on beef and citrus products. However, Japan has in recent years gone to considerable lengths to open her markets to foreign competition. In terms of tariff levels and quotas, at least, Japanese markets are today no more closed than those of the United States. Indeed, in view of the variety of marketing agreements now protecting certain major U.S. industries, it might well be argued that, formally, Japan's markets are more open than U.S. markets.

However, in Japan many informal barriers to foreign goods and capital remain in place. These barriers are in many cases the legacy of old attitudes which equated domestically produced goods with a patriotic effort to build a strong Japanese economy. Obstacles have appeared, for example, when lower-echelon officials changed standards or established qualifying tests in ways which deterred foreign products from entering Japan. And frequently Japanese customs officers have raised import valuation for tariffs, thus increasing the cost for the foreign producer to compete in Japan. This has been a particularly vexing problem because Japanese customs officials have considerable autonomy, and because appeals are difficult and might invite reprisals. Obstacles to capital have also appeared: It has sometimes taken one year, two, or even more to get supposedly automatic approval for foreign investments. In addition, foreign companies operating in Japan have frequently found themselves excluded from the extensive consultations between business and government which take place there. These consultations shape regulations and legislation; they determine how firms in an industry do business in Japan. Obviously, exclusion from these consultations can put a foreign firm at a distinct and unfair disadvantage. Difficult access to government has been a recurrent problem for foreign companies in Japan.

Japanese markets are certainly no longer as closed as many U.S. businessmen claim they are, but it is true that overall Japan is not as open as the U.S. This is regrettable because Japan is no longer the economically weak and vulnerable nation she once was, despite lingering Japanese beliefs to the contrary. In fact, Japan now has a highly adaptive economy that can easily afford to discard the vestiges of economic nationalism. Moreover, it is in Japan's best interests to do precisely that. Other nations expect the Japanese to be scrupulous to observe in their own domestic markets the same practices of openness and accessibility from which they benefit abroad.

Increasingly, certain Japanese are becoming aware of this fact, especially in the more internationally-minded branches of the government. For example, in July Prime Minister Suzuki renewed his government's pledge to encourage imports, and at the same time MITI officials announced they would organize trade fairs and buying missions and support the efforts of trading companies and retailers to boost sales of imports. In another sign of their concern, the Japanese last year put into effect a new Foreign Exchange and Foreign Trade Control Law. Previously, Japanese law had been based on the principle that all external transactions, including foreign direct investment, were restricted except where permission was granted. The new law reversed that
principle, freeing external transactions from controls except in emergencies and special cases. However, various controls are still in place or could be quickly reinvoked. How Japanese implement this new law and how far they go in promoting imports only the future will tell. Of course, it is the responsibility of American officials to support Japanese moves to open their economy, and it is the responsibility of American businessmen to take full advantage of these new opportunities.

Energy: Conflict or Cooperation?

Japan’s rise to economic prominence has strained relations in matters of bilateral trade, and it has also brought about an entirely new problem for Japan–U.S. relations, one which is, unfortunately, only dimly perceived. Japan and the United States have become the world’s two largest importers of oil, and for their oil they depend on some of the world’s most unstable regimes. Should a major supply interruption occur, domestic political and economic forces might drive each nation to attempt to secure supplies in whatever manner it could. This would pit Japan against the United States and would drive up world oil prices.

We had a glimpse at how quickly serious tensions of this sort can arise when in December, 1979, the U.S. boycotted Iranian oil during the hostage crisis. Japanese companies moved in to buy up the available Iranian oil, and in doing so they bid up the price, actually enabling Iran to profit from the U.S. boycott. Americans could not understand how an ally could allow its nationals to do this; Japanese thought Americans were insensitive to their energy vulnerability. Japanese and U.S. leaders should agree now on the steps each would take, probably through the International Energy Agency, in the event of a large-scale supply disruption. They should put effective policy-coordinating machinery in place, and they should be prepared to act promptly and decisively in the event of a crisis.

The risk of this sort of strain to our relations would be reduced, of course, by efforts to minimize oil dependency. Both countries, but especially Japan, should greatly increase their energy research and development, and they should encourage joint research programs when feasible. Both countries should also expand their nuclear power capacities. And finally, both countries should make greater use of coal. Here there is an opportunity for Japanese capital to assist the development of western U.S. coal reserves and coal transportation facilities in exchange for assured supplies of steam coal. This would lessen the reliance of both countries on costly and unstable oil supplies.

The Benefits of the Relationship

Having said all this about the problems in Japan–U.S. relations, there still remains the question of what interests hold this seemingly fractious relationship together. This is not a question which most Japanese and Amer-
icans can readily answer. In fact, Japan's rise to economic parity with the U.S. and the resulting high volume of economic exchange has brought both peoples, but especially Americans, advantages of which they are barely aware. Ignorance of these advantages is perhaps the greatest potential flaw in the bilateral relationship because full awareness of our mutual interests is vital to the success of efforts to prevent trade frictions from becoming contentious political issues.

The mutual advantages, then, are these: As the sheer quantity of bilateral economic exchange amply attests, economics of specialization and economies of scale are operating for the benefit of Japanese and Americans alike. Consumers in both countries enjoy the availability of many new products and varieties of styles in existing products. They benefit as well from technological advances made in the other country. Once Japan was an importer of U.S. technology, but in recent years, as her economy has grown and as Japanese industries spend more on research and development, technology has begun to flow east across the Pacific as well as west. And finally, Japanese and Americans benefit from the powerful restraint which their bilateral free trade places on inflation in both countries. In a perverse way the recent curbs on Japanese auto imports illustrate this effect. By enabling American auto producers to raise prices, this agreement effectively taxes the American public and sends the proceeds to U.S. auto companies. Though it is doubtful many Americans are aware, this agreement will cost them 200 to 400 dollars per vehicle, according to auto-industry analysts.

Our bilateral economic relations furnish another quite different type of benefit, though often these benefits are not seen as such. These are the benefits gained when the industries of one country stimulate the industries of the other to better efforts. As everyone knows, it is U.S. industry which has been "benefitting" more of late. Often Americans reach for the wrong metaphor: They say they are being hurt by Japan, but in fact they are being prodded. When the quality of Japanese cars, of Japanese steel, of Japanese televisions is higher than that of American products, then American auto, steel, and television manufacturers are compelled to improve their products and it is the American consumer who benefits.

Today Japan provides an alternative model for U.S. industry. Americans are not copying Japan, any more than the Japanese have simply copied the West, but they are learning from Japan. For example, they are examining hitherto unquestioned assumptions about the ways they regulate their factories and the ways in which workers and managers deal with one another. They are studying Japanese productivity techniques, and to meet the Japanese commercial challenge they are seeking ways to generate more savings and channel those monies into an undercapitalized manufacturing plant. Due in part to the Japanese, American managers are shedding their short-term, bottom-line orientation in favor of longer time horizons. They are also paying more attention to market share, and they are learning the value of vigorous export programs. In short, Japan is one of the major factors behind the revitalization of the en-
cumbered U.S. economy. Japan, too, will benefit from this revitalization, because as the American economy strengthens, many of the bilateral tensions now exacerbated by U.S. industrial weaknesses will diminish in significance. Indeed, nothing would enhance Japan–U.S. relations more effectively than rapid improvement in U.S. economic performance.

Both nations benefit from their bilateral relationship at yet another level. Each gains from the support the other lends to the maintenance of a liberal world free trade system. This is vitally important to both these democratic societies. Few things are as dangerous to democracies as a no-growth, zero-sum situation in which groups fight to the bitter end over the division of a fixed economic pie, and Japan and the United States both depend on international trade to generate economic growth and an ever-larger pie. They, along with their trilateral partners in Europe and North America, are bulwarks of a commercial system which encourages economic growth and, hence, political stability. Japan and the United States are, therefore, two industrial democracies which need each other. They need the stimulus of competition they bring to one another, and they need the benefits and the support they provide each other.

Unfortunately, these vital mutual interests are often ignored, while well-publicized trade disputes generate acrimony. Free trade—for all its advantages—inevitably creates tensions, and these tensions can quickly grow into full-blown political confrontations. The higher interests of the Japanese people and the American people coincide too closely for either to permit that. Therefore, it is imperative that they communicate better. More than that, they must establish not merely institutions for dealing with trade disputes, but institutions which can anticipate problems and treat them effectively before they grow to major proportions. Doing this and doing it successfully will require that they keep the advantages of their relationship always in the forefront of their minds. To continue to reap the benefits of our bilateral economic interdependence—and they are very real benefits—Japan and the United States must restrain protectionist sentiments. Neither can afford to allow trade issues to erupt into divisive political issues.

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20 shiki:
There are winds in the East and South; the clouds are not calm in the West; and in the North the winds of the dark evening whistles; and under the shade of the mountain.....

Chorus:
..... there is a rustling of boughs and leaves.

*The Report and an Appendix, which contains the working papers commissioned by the Group, are available in major research libraries in the United States and Japan. Copies may also be obtained through the Japan Desk at the State Department, through the Advisory Council on Japan–U.S. Economic Relations, Chamber of Commerce of the U.S., 1615 H Street, N.W., Washington, D.C. 20006, or through the Japan Center for International Exchange, 9-17, Minami-Azabu 4-chome, Minato-ku, Tokyo 106, Japan.

KUMASAKA
by UTOWO
trans. E.P.
It is not uncommon for such “obvious” issues as defense, access to natural resources or even trade matters to overshadow a number of less visible, apparently more technical developments, the longer-term implications of which often turn out, in the end, to be equally significant for stability, prosperity and cooperation among our countries. These less immediate developments may indeed foster the underlying conditions of peace, and so diminish the likelihood of confrontation; or they may make conflict almost inevitable by unwittingly wedging apart the common interests of our countries, leading to increased de-solidarization. Just ten short years ago, the price and supply of oil were viewed largely as technical problems to be dealt with by experts whose circumscribed views were merely rubber-stamped (e.g. the Teheran agreements) by harried policymakers focusing on the primary strategic concerns of the day. But yesterday’s technical developments may conspire to alter the nature of present geo-political issues. Recent liberalization moves taken by Japan may be a case in point.

This article describes and assesses some of the implications for Japan and for the trilateral countries likely to stem from the final stages of Japan’s dismantling of exchange controls and the subsequent openness of the Japanese financial system. While these moves may be of greater concern to bankers and investors in the short run, their longer-term implications are political and of significant interest to all trilateral countries.

On December 1, 1980, Japan implemented an amended Foreign Exchange Law—governing all foreign transactions—which represents a substantial revision of Japan’s approach to foreign monetary and capital transactions in the direction of liberalization. The previous system, based upon a highly restrictive 1949 Law, forbade foreign exchange transactions in principle, although many relaxations, especially in recent years, had taken place via administrative discretion. The amended Law not only confirms and furthers these previous relaxations, but switches the principle itself of Japan’s external financial relations by allowing all foreign exchange transactions in principle unless expressly prohibited. In this sense, Japan’s legislation now resembles that of most of the other major trilateral countries. These measures are a concrete demonstration of the commitment by the Japanese authorities to play a major role in international financial relations commensurate with the importance of their economy. Given the present difficulties in the world payments situation, they are especially constructive.

These moves to dismantle controls on external payments should not be underestimated in their long-term effects. They do represent a crucial step in Japan’s transition to a fully open economy and provide the legal basis, after years of typically cautious and worried internal debate, for Japan’s full integration into trilateral economic relations. More so than in many other countries, legislation passed in the Japanese Diet is only the formal outcome of a long, and sometimes arduous, consensus-building exercise. And so, it is important to understand, especially for those outside of Japan, how the domestic consensus was formed; what internal and outside developments have favored this evolution; why liberalization was chosen in what could be considered a hostile international environment, and what will be the likely consequences of these changes for Japan and other countries. The following paragraphs will attempt to shed some light on the above points. For it is important to understand how the Japanese acceptance of economic interdependence developed so rapidly (so much so that many Western observers have significantly underestimated the positive role that Japan has played in its reaction to the second oil shock of 1979, in sharp contrast to its export-promotion/imports-except-oil curtailment after the Yom Kippur War). Market developments, rather than political pressures, encouraged the moves to unfetter Japan’s external economic relations.

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But other political options were available and their rejection should be explained.

**Opening Moves—Domestic Considerations**

The moves to open up Japan’s economy to external financial transactions have been related not only to the evolution of the balance of payments situation but also to the gradual de-control of domestic capital markets and financial institutions, a process which is as yet, incomplete.

During most of the post-World War II period, Japanese financial markets were fairly rudimentary and tightly controlled, with banking operations constituting the overwhelming bulk of private-sector financing transactions and with Japanese companies’ heavy reliance on bank loans. The tight regulation of banks, jointly supervised by the Ministry of Finance and the Bank of Japan, in such areas as the creation of new banking institutions or banking offices (domestic or foreign), the introduction of new financial instruments, and the fixing of interest rates, naturally made it difficult to integrate the domestic financial network with the growing volume of international financial operations, much of which was directly or indirectly financing world trade. A particularly difficult problem, which still remains, is the reconciliation of market-determined interest rates in international markets with those of domestic rates which are still controlled.

Recent years have seen significant changes in the system of domestic financial control due, in part, to the need to finance rapidly growing government budget deficits. These have been financed by a rapid increase in the flotation of government bonds and have been accompanied by the development of a secondary market where interest rates are market-determined. Increasing competition from the postal savings system has led to a loss of deposits by the banking system, thus encouraging the Bank of Japan to favor more market-determined interest rates in order to regain control over the money supply. With lower growth rates in corporate investment in recent years, Japanese non-financial companies have been able to meet an increasing proportion of their financing needs through internal cash flow and, to some extent, the Bank of Japan’s “window guidance” (individual lending ceilings on loans by commercial banks) has become less effective as an instrument of monetary control.

Moves towards the de-control of the domestic financial system (and thereby, greater compatibility with international developments) have been especially rapid in the past three years, including, *inter alia*, an extension of the range of activities permitted to foreign-owned banks established in Japan (as well as the foreign activities of Japanese banks). Among the more important developments since June 1978, when the Bank of Japan began gradually liberalizing interest rates in the short-term money markets, have been moves towards freely determined interest rates resulting from secondary market trading in the call money market, the bill discount market and in the short-term “Gensaki” or bond repurchase markets. In March 1979, a Yen certificate of deposit market was established, although with a high ¥ 500 million threshold. Also of great importance for transferring monetary signals from one economy to another, deposit and lending rates on most kinds of foreign currency transactions were allowed to be freely determined, although the amounts of many categories of such operations were regulated until the implementation of the amended Foreign Exchange Law in December 1980. In March 1981, a special lending system—similar to the “Lombard rate system” used in Germany—was introduced to provide the Bank of Japan with the possibility of offering short-term loans to banks at rates different from the official discount rate. This system will facilitate the smoothing of money or foreign exchange markets subject to disruption due to the large volume of international capital flows.

**and Foreign Considerations**

Although domestic considerations have had, and still retain, their importance in determining the extent of liberalization and openness of the Japanese economy, it is the changed situation of Japan in the context of the world economy which has been the dominant driving force behind the liberalization of Japan’s external financial relations. As a major trading nation, heavily dependent upon exports to pay for needed imports of energy, raw materials and food, Japan has experienced the need to establish an overseas network of banks and other financial institutions to support the expansion of Japanese industry which is becoming a growing source of direct investment. Trade financing needs, still largely carried out in other currencies, especially the U.S. dollar, have grown substantially. Frequent periods of exchange rate strength have called for relaxation of impediments to capital exports; and the less frequent periods of exchange rate weakness have underlined the need for capital inflows. To achieve this, a greatly simplified system of surveillance and possible control and a stable posture with regard to liberalization are prerequisites.

**Japan as a Financial Power**

In a sense, of course, it would be expected that Japan, in its dramatic economic catching-up (and overtaking) efforts, might lag behind in some areas. This discrepancy between, say, Japan’s rapidly acquired economic power and its highly circumscribed view of its own polit-
ical and defense responsibilities has been alluded to often, usually with the hope that consensus-building in Japan will evolve towards a more balanced commitment commensurate with Japan's economic role in the world economy.

But, another area, somewhat neglected, where Japan has lagged behind in its rapid economic ascendency has been as a financial power. During the 1970s, several other trilateral economies were absorbing and recycling international financial flows, especially OPEC funds, so as to finance payments imbalances and to minimize disruptions, as far as possible, to the financial system sustaining world trade and investment. Due to internal rigidities, especially the completely pegged nature of deposit and lending rates in Japan, the Japanese financial system played a minimal role in these efforts. Japanese banks were active (some would say too active) in 1974–75 in international syndicated lending, but this was carried out in dollars outside the Japanese economy: The fact that the banks had such narrow dollar deposit bases caused them to suffer heavy losses, the memory of which is still vivid, as interest rates climbed and the banks found themselves overextended.

Other countries, whose economies—with the exception of the United States—were smaller than Japan's but whose capital markets were more sophisticated and open, bore the brunt of the recycling burden. The supply of money, the cost of credit and/or exchange rate of countries such as Germany, the Netherlands, Canada, Switzerland, and even in countries with more or less elaborate controls such as France, Italy and the United Kingdom, were determined to some extent by external factors. As a consequence, the management of global interdependence was made a more chronic necessity and, at the same time, more politically costly.

In short, Japan's method of dealing with the first oil shock in 1973–74 was to curtail non-oil imports and to export aggressively so as to finance its higher priced oil, thereby shifting the burden of adjustment, already substantial on its own, onto other countries. Therefore what is significant, and perhaps not entirely appreciated by many Western observers, is that Japan's financial system has been in the process of being rapidly de-controlled since 1978 and is becoming increasingly open, such that the reaction to the second oil shock was far calmer in Japan. The Japanese financial system was able to absorb, rather than shift, much of the burden. This was done because, for the first time, the capital accounts of the balance of payments could be deployed to finance Japan's current account deficit rather than curtailing imports/promoting exports as in earlier circumstances. In a sense, the passage of the amended Foreign Exchange Law represents the culmination, not the beginning, of this opening process.

It is surprising that there has been a large degree of consensus in Japan on the necessity of opening up the financial system, even though it is understood that, as a consequence, the management of the Japanese economy will be more difficult as it will suffer from a lack of autonomy similar to other economies. There are several reasons for this change which is a stark contrast to attitudes in Japanese financial and business circles in the late 1960s. First, as a result of the rapid internationalization of business activities, foreign investment has become an important consideration for Japanese firms and their attitudes towards foreign investment in Japan have become quite open—under the old Law, unfriendly takeovers were all but impossible. Second, under the floating exchange rate system, it has become essential for Japanese enterprises to hedge their credits and liabilities in foreign currencies by borrowing and making deposits in foreign currencies. Third, rapid changes in international financial markets require that Japanese companies borrow or float bonds abroad in a timely and flexible manner. Last, it appears that non-resident demand for yen assets, leading to an increasing internationalization of the yen, could not be readily curtailed. Liberalization, by leading to stronger, broader and deeper capital markets, would minimize the possible disruptions from non-resident sources.

In applying the new Law, however, Japan has typically hedged its bets. There has been no wholesale dismantling of all exchange controls as the British did in October 1979. The amended Foreign Exchange Law in Japan makes all transactions free in principle and carefully circumscribes the very narrow range of operations where interference could take place. But there is a reporting system for many types of freed operations and the control apparatus is being maintained for the time being. Even this limited administrative machinery may be removed in time, although the reappearance of controls in an emergency cannot be ruled out.

The previous paragraphs would seem to indicate that the opening up of the Japanese financial system has been a result of market developments inside Japan itself as well as abroad. Was this move towards a financial system on a par with its economic power an inevitability?

The long-term answer would be yes, as the internal and external pressures to finance a greater share of Japanese trade and investment would have become overwhelming. However, the choice for removing the remaining legal barriers to capital flows and rendering policies and practices more transparent was a political one. Other political options, feasible at least over the short to medium term, were available. While financial autarky, even if possible, would have been unsustainable—such a degree of mercantilism would have
been unacceptable to other countries and would have invited retaliation against Japanese goods and investments—compromise solutions were present. The most obvious one, which has been pursued to some extent (and not just by Japan) has been a recourse to bilateral financial and trade deals. Particularly on the financial side, this bilateralism was not without a certain appeal as it would seem possible to finance a current deficit off-market by issuing domestic currency assets that would not, in principle, disrupt or impinge upon the domestic financial markets. Thus, the lack of autonomy associated with monetary interdependence might be avoided. Another possibility would have been to allow loan and fixed-interest security funding, but to exclude equity operations involving control of Japanese companies.

The fact is, of course, that these other alternatives were tried. These were precisely among the many small measures taken, sometimes under the guise of administrative guidance, throughout the 1970s as Japan tried to finance its rapidly growing economic machine as efficiently as politically permissible. But it came to be increasingly recognized both in business and official circles that the trade-offs involved in such partial palliatives were becoming costly. The fundamental decision was to participate fully in the international economy as a trader, investor and financier, accepting as a consequence the inherent limitations to domestic economic policy while enjoying accompanying economic benefits. The alternative was to erect defensive barriers of limited effectiveness and duration which could only lead to inefficiency in Japan and an exacerbation of tensions with Japan’s major trading partners.

Implications of a More Open Japan

While the developments described briefly above are obviously technical, their implications should not be underemphasized. Over the next few years, the decision to open fully the Japanese economy could have far-reaching-
ing consequences, not least, of course, for Japan itself. A note of caution is called for. The amended Law ushers in the principle of freedom in all external transactions which is by far the most significant aspect of the policy change, but, as noted above, the legal text is replete with safeguards that make the commitment to liberalization appear to be less than wholehearted. Thus, it will be essential to observe the manner in which the amended Law is applied. In a cabinet decision of December 1980 and in subsequent ministerial ordinances, the commitment has been reinforced to give liberalization a practical effect.

With a more open financial system, the Japanese economy will no doubt be more sensitive to economic conditions prevailing abroad—this internationalization of the economy presents evident complications for economic management with inherent social and political risks. It will become increasingly difficult for Japan to insulate itself from interest rate developments or inflationary pressures abroad. Or attempts to do so through macro-economic policies will, as in the case of other countries seeking refuge from external developments, affect the exchange rate and hence real output, employment and investment. The price of liberalization for Japan will be the rigors of the international marketplace, a challenge that Japan has confidently faced on the real activity side, but how well will it do with its financial flank uncovered?

There are at least three levels of positive effects for Japan’s trilateral partners. One is Japan’s straightforward participation in the recycling of the OPEC surplus (with foreigners buying Japanese assets as well as goods and with Japanese lenders exporting funds to finance other countries’ deficits). This is significant because this time around, Japan has helped to defuse what is already a tense commercial rivalry that could have become explosive if Japan had added to OPEC’s surplus by having to promote exports to pay for oil. Now Japan, like other countries, can finance its deficit. And the increased international use of the yen could add elements of stability to the world payments system.

A second ramification of Japan’s financial coming of age is that it is significant that, in a time of difficult economic conditions, especially on the monetary front, a major, heretofore relatively closed economy should react by liberalizing its economy rather than by trying to shift the burden of adjustment onto others. This opening process has been a gradual one and, as yet, an incomplete one when viewed from the outside; to many Japanese, the de-control of the financial system and its external opening has been almost revolutionary. This protective cocoon which has nurtured Japanese industrial and commercial development since the Second World War is being rapidly dismantled. There is a lurk-

The implications of these changes are far-reaching that certain elements both inside and outside Japan view the recent implementation of the amended Law with skepticism as a cosmetic change, one made in response to outside pressures, but without altering the underlying practice. While only time will tell, barring unforeseen developments of catastrophic proportions, these skeptics are likely to be confounded. Japan’s financial coming of age has been evolutionary, even if symbolized, in a befitting Japanese manner, by a striking piece of legislation at the end of the process. It results from market developments, combined with partial attempts to deal with the problems of financial integration in more circuitous ways that were not helpful over a longer term.

Lastly, the moves to dismantle the remaining official impediments to international economic and financial operations indicate a clear commitment, even under circumstances of considerable uncertainty in the world economy, to an open, multilateral economic system. This serves the interests not just of Japan, but of the world community as a whole. As a result, the longer-term conditions necessary for the maintenance of prosperity and peace may be enhanced.
The following statement, which echoes some of the concerns discussed at more length in the rest of this issue, was prepared for Triilogue by Wilhelm Haferkamp, Vice President of the Commission of the European Communities with Special Responsibility for External Relations. (Ed.)

In the period from January to July, 1981, Japanese exports to the Community were more than twice as high as Japanese imports from the Community—that is 11 billion against 5 billion dollars, Japanese figures. The Community trade deficit with Japan is certain to reach a new peak in 1981. In relation to the total amount of Japan/Community trade, the Community trade deficit against Japan is higher than with any other country in the world.

For the last ten years, the trade situation of the Community has been deteriorating against Japan. This highly unsatisfactory development overshadows more than anything else the political and economic relations between the two regions and constitutes a burden for the fundamentally good understanding and basic identity of political interests between Japan and the Community.

Over the last years, Japan has become the number one problem for Community trade policy. Hardly any Council meeting of the Community Foreign Affairs Ministers goes by without E.C./Japan relations being on the agenda.

The unfavorable trend in European/Japanese trade has to be seen against the background of unprecedented economic crises and unemployment within the Communities. Trade unions and business groups therefore quite understandably plead that the 11 billion dollar deficit towards Japan constitutes an intolerable burden in the present economic situation and substantially contributes towards increasing the number of unemployed. After all, if the 700,000 automobiles and several million tape recorders, television sets and radios that are presently being imported from Japan were produced within the Community, this would mean additional jobs for workers in the automobile and electronics industries.

It is therefore not surprising that respectable economists in the Community argue the case for temporary import protection in order to revitalize European industries. The pressure for import restrictions will become more and more difficult to resist politically if this deterioration course continues.

There is no doubt that the Japanese economy would suffer incalculable damage if the Community and in its wake other major trading nations decided to put on severe restrictions against Japanese exports. Nobody should underestimate the dangers inherent in a trade war between Japan and the rest of the world, for such a trade war will hardly be limited to Japan. It will tend to generalize very fast, and the free world might well end in a situation of economic havoc.

It is therefore up to those at the helm of economic trade policy to prevent such a fatal course of action from being taken. What has been done so far and what remains to be done to achieve a better-balanced relationship between Japan and her major partners in the Western world? Since the beginning of 1981, three major corrective moves can be registered, each of them working towards a narrowing of the trade deficit.

Firstly, the yen has continued to appreciate, thus reducing Japanese price competitiveness in the European market. However, judging from the continued brisk export performance of Japanese industry in the world market and the fact that Japan is most likely to run into a balance of payments surplus in 1981, one might wonder whether the yen appreciation that has so far taken place was sufficient to create a more balanced trading situation.

Secondly, European industry, especially the automobile and electronics sectors, has taken up the gauntlet. Far from leaving the field to their Japanese competitors, European industry has made efforts to modernize the production processes, streamlining production and improving existing models. As a consequence, European industry today seems to look with somewhat more confidence at the Japanese competition than it did a year ago.

Thirdly, the Japanese government has invited industry to exercise export restraints in key sectors like automobiles, following a very strong appeal in that direction from the European Community and other partners.

But despite these encouraging signs, the situation remains highly explosive. Further balancing moves are absolutely indispensable. I see three major areas for action towards
a more balanced trade relationship. Firstly, Japanese industry must continue to exercise export restraint towards the Community. At a time when the Community GNP stagnates, it is not possible for Japanese industry to increase their exports to the Community at rates of 10 and more percent in real terms unless there is a corresponding flow of Community exports to Japan.

We shall therefore continue to appeal to the Japanese government to exercise its authority over Japanese industry to strictly limit the further growth of exports.

Such a demand for moderation should not be mistaken for protection. On the contrary, it is the condition, *sine qua non*, for not resorting to protective devices. But for Japanese restraint in the automobile sector, the Community would hardly have been able to avoid unilateral import restrictions in this politically sensitive sector.

Secondly, if Japanese firms want to increase their share in the Community markets, they will have to do so more and more by setting up manufacturing operations of their own within Community boundaries. Nobody could then object that jobs are being lost because of Japanese imports and that European industry had to compete on unequal terms—that is, lower labor costs, lower taxation, etc.—with their Japanese colleagues.

We welcome the fact that in the past three years an increasing number of Japanese companies have decided to set up manufacturing ventures in Europe. We think that there is still large scope in that direction. We are still very far from the situation linking Europe to the United States where it is taken for granted that U.S. energy, chemical, automobile and machinery companies have major stakes through direct investment in the Community market and *vice versa*.

Thirdly, improving the balance of E.C./Japan relations will, however, not be possible unless European industry takes a much bigger stake both through export and direct investment in the Japanese market than it presently does.

Fundamentally, a better balance in economic relations should not be achieved through less trade or
through restrictions but through more trade, more cooperation, and a better division of labor.

Europe keeps complaining that the Japanese market is closed. Even if Japan has made great strides during the last two decades in liberalizing and opening up its markets, there is no denying the fact that the Japanese market is still much less accessible than either the European or the North American market. The difficulties of entry arise not so much because of duties or quantitative restrictions, both of which are overall no higher than elsewhere, though they are peaked in areas of interest to us; and not even because of various bureaucratic hurdles, which seem to be more prevalent in Japan; but stem above all from the existence of the Japanese business society itself, with its vertical, closely knit structure. The absence of independent, financially strong import trading companies is probably the single most disturbing protective device in Japan. As a consequence, Japan does not import manufactures.

Suppose the leading European manufacturing companies were organized within a dozen giant business groups comprising not only manufacturing but also banking, trading and insurance companies. These groups could then easily control what types and what quantities of products were marketed through the groups’ own distribution system, and nothing would be easier than to allow imports only to the extent that this suited the interests of the dominating manufacturing group. This is precisely the situation that European exporters find themselves confronted with in the Japanese market. They can either sell their products to the big trading houses which are part of one of the giant Japanese business groups—this implies that their products will only be sold as quantité négligeable—or they will have to set up their own distribution system in Japan, which is not only extremely costly but also difficult because such a move might be exposed to strong pressure from the established trading houses.

We wholeheartedly applaud MITI Minister Tanaka’s statement of July 14, 1981, on the promotion of imports, in which he requested the business community to make efforts to promote imports of manufactured goods. We shall watch the results carefully. It is indeed no longer sufficient to make declarations. For these to be credible, they must be followed by action. We undoubtedly need a change in mentality within the Japanese business society and acceptance of change in Japan’s industrial structure so as to foster manufactured imports, which means accepting dependence on outside suppliers. They must realize that it is not possible to flood the world market with their products; that exporting is only possible if there is also importing of manufactured goods; and that business must fundamentally remain a give-and-take relationship. Export surpluses will not be allowed to grow to intolerable dimensions. If the market forces do not sufficiently work to correct existing imbalances, sooner or later government will be forced to intervene to take corrective action where business and market forces fail.

This is the message we want to communicate to our Japanese friends. We consider Japan an essential pillar of the free world. We fully recognize the organizational talents, the innovative strength, and the work discipline of the Japanese people. These qualities combined with a successful absorption of European and American scientific and technical know-how have produced the Japanese economic miracle. However, to the extent that such positive qualities provoke excessive tensions and pressures abroad, these become political factors to be reckoned with. One must not bend the bow back too far. We are convinced that Japanese ministers and top businessmen have understood this message. MITI Minister Tanaka stated it very clearly on July 14. It now remains to be seen how far it will work through the system.
Editor's Mail:

Sir:

I welcome the special Trialogue issue on Japan which you announced earlier this year. Japan has rightfully earned the major role it now plays in a "trialogue" among the industrially developed countries. However, in light of Japan’s geopolitical location in Asia and of the importance of Japan’s ties to the member countries of the Association of South East Asian Nations (ASEAN), I believe your work would gain from a closer look at the present situation and trends in South East Asia.

The peoples of South East Asia look up to the Japanese success story. From the era of the Meiji renaissance—except for the unfortunate interlude of the Second World War, during which Japan’s militarist policy trampled the nationalist aspirations in South East Asia—Japan has set an exemplary pattern of progress and modernization for the whole region. Furthermore, since the end of World War II, the close and friendly relationship between Japan and the ASEAN countries has become an essential factor for the continued development of the world economy.

However, a new outlook has emerged in the region in the aftermath of the Vietnam war. An unusual combination of events, mainly due to the Socialist Republic of Vietnam’s close military and political alliance with Moscow, has led to a dangerous shift of the balance of power in the region. The insecurity of this new situation is heightened by the presence of Russian warships at the strategic Bay of Cam-Ranh—that very same harbor where the entire Russian fleet found haven before engaging in the final sea battle of the Nippo-Russian war.

The Socialist Republic of Vietnam has brought into the Southeast Pacific a superpower which has never been a Pacific power. In conceding the use of Cam-Ranh Bay to the Soviet Union, Vietnam has attracted the anathema of free Southeast Asian countries in resentment of this obvious Communist threat to their freedom; Vietnam now appears as the bridge for Soviet inroads into the area.

Furthermore, with the invasion of Kampuchea (i.e., Cambodia) the Socialist Republic of Vietnam has become not only a pariah in the world but also an open enemy to its neighbors. The entire South East Asian region is threatened by the ensuing instability and by Soviet penetration.

I believe peace and security in South East Asia can only be restored when the people of Vietnam, now misled by the communist leadership in Hanoi, all recover their freedom to decide upon a sensible course in foreign policy. In the meantime, the result of Hanoi’s paranoid conduct can be summarized in a nutshell: a country in ruins, dangerously isolated in the region.

The security and economic survival of Vietnam essentially rely on a peaceful relationship with its neighbors. During its long history, the Vietnamese people, while ready to defend their country’s territorial integrity and national sovereignty against Chinese invasion, have always endeavored to avoid Chinese wrath. At the end of every Sino-Vietnamese war, as soon as the independence of the country was restored, it has been our traditional policy to resume a forthright relationship with China. As recently as the end of the eighteenth century, the Vietnamese Emperor Quang Trung’s first task at the end of his brilliant military success against China was to initiate no less successful a diplomatic approach which he openly described as “being worth many army divisions.” That fundamental principle of our foreign policy, based on historic realities, is being overseen by the Hanoi leadership in its schizophrenic obsession with Chinese threats and its submission to the demands of China’s worst enemy. The border clashes so created drain the scarce resources of the country, hamper its reconstruction and engender an open unrest among the population.

The invasion of Kampuchea ordered by the Hanoi leadership is, similarly, disastrous to our countrymen for it goes against our long-term national interest. During our history, it has always been recognized that, once the Vietnamese’s southward march reached the Mekong delta, any probes towards Kampuchea and Thailand and the precarious border situation that ensued hampered in the end the peaceful development of the south of Vietnam. The only Vietnamese governor ever to stay in Kampuchea did not remain more than a few years before withdrawal became imperative to maintain peace. As a rule, an independent Kampuchea has proved to be a convenient buffer state between Thailand and Vietnam.

Hanoi is now engaged in a deadlock in Cambodia, where economic and military pressure can only force a withdrawal which could well spell the beginning of the end for the Hanoi communist leadership. It is therefore not surprising that a debate should be raging now in the Central Committee to put the blame on Le Duc Tho [former Chief North Vietnamese Negotiator in the Paris talks and Politburo member] for his handling of the Kampuchean adventure.

The internal situation of the country—economically as well as politically—has deteriorated rapidly, as the overwhelming evidence brought by our boat people has shown. The struggle for freedom never really ceased in Vietnam; it has gained momentum since adventurism in foreign policy and mismanagement as well as a cruel tyranny have alienated a vast majority of the population. The Socialist Republic of Vietnam, in the intolerable situation of a beleaguered country, could not solely rely on scarce agricultural resources from Russia to solve its economic problems. It now presents the image of an acute misery by contrast with the relative prosperity of other countries in the region—a situation made all the more untenable when one considers Vietnam’s great agricultural potential. Although it has been only scantily reported here (see the Washington Star, August 9, 1981), evidence points to a situation of utmost unrest, and armed nationalist resistance is continuing in many parts of the South.

As was amply demonstrated by the latest, July 1981 United Nations Conference on Kampuchea, the situation in South East Asia is presently deadlocked. Because of a paradoxical combination of circumstances, some China-fearing South East Asians could fear in the short run that the ASEAN countries stand to lose in a change in Vietnam’s orientation. However, these countries should realize—and should be encouraged by their friends in the industrialized world to realize—that they can only benefit in the long run from the emergence of a truly independent Vietnam as a guarantee for the harmonious development of the region. The end of a dictatorship whose human toll defies description, and an authentic self-determination for the Vietnamese people, are the conditions for peace and continued prosperity in the region. Current evidence gives me reason to hope for a Vietnamese “Spring”—a new season, this time beyond the reach of Soviet tanks.

Pham Huy Ty
Former Career Ambassador of the Republic of Vietnam (South Vietnam)

[This writer served, among other posts, in Japan, Korea, Thailand, and Cambodia and was in 1970 Special Envoy to the ASEAN countries. Ed.]
Photographs

Page 4: Old man admiring catalogue from King Tut exhibition outside a Kyoto museum.

Page 11: Architectural model reconstructing the original compound of Todaiji (Great Eastern Temple) as it stood in 1752.

Page 17: Snow fall at the Temple of the Silver Pavillion (Ginkikuji) in Kyoto.

Page 20: Participant in the Setsubun, or “Change of Season” festival.

Pages 24-25: Clipped bushes in the garden of Daichiji Temple, located in Shiga prefecture near Kyoto.

Page 30: Osaka.

Page 33: Workers in an older factory in Osaka.

Page 36: Panel, Chionji Temple.