THE U.S.-JAPAN RELATIONSHIP
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In July 1982, when I entered the National Security Council as Senior Director of Asian Affairs and Special Assistant to the President for National Security Affairs, I was determined to do everything possible to strengthen the U.S.-Japan alliance. There were many things to be done: bolster the defense relationship; manage U.S.-Japan cooperation in the international arena; further the provision of aid to developing countries; and foster the personal ties between the leaders of our two countries. There was no doubt in my mind that Japan and the U.S. working together could bring untold benefits to the peoples of our two countries and, indeed, to the world.

President Reagan and Prime Minister Suzuki had already established a good working relationship in 1981 and 1982. When Prime Minister Nakasone took office in late 1982, working together with our Japanese government colleagues, we put together the Ron-Yasu tie, which lasted through the Nakasone prime ministership and became the Ron-Noboru tie after Mr. Takeshita became prime minister. The basic reasoning behind the Ron-Yasu appellation was that this was a natural development because of the close U.S.-Japan alliance. And Japan, after all, was a part of the economic summit countries and, as such, was an integral member of the developed world. Prime Minister Nakasone affirmed this in clear and unmistakable terms at the Williamsburg Economic Summit of 1983. Every national leader at these summits used
first names in oral and written communications. It stood to
reason that this should be true in the case of the U.S. and
Japanese leaders. Both the Prime Minister and the President
enthusiastically supported this and the Ron-Yasu relationship
developed. These personal relationships served our two countries
well through the years and allowed certain very difficult
problems to be resolved with less rancor and more quickly. I
served on several occasions as special emissary from Reagan to
Nakasone and can testify to the great respect and liking these
two men had for one another—a respect and liking which, on some
occasions, eased the settlement of thorny questions between our
two countries and allowed for very close cooperation in the
international arena, particularly at the yearly economic summits.
President Bush has continued this relationship with the Japanese
prime minister.

The evolution of U.S.-Japan relations under President Reagan
took place within the fundamental frame of the belief of the
President and his chief advisors that Japan was central to U.S.
foreign policy interests in the Asia-Pacific region and, indeed,
in the world. When Prime Minister Suzuki announced in the fall
of 1982 that he would not accept another term as prime minister,
it became apparent, after some amount of jockeying for position
within the Liberal Democratic Party (LDP), that Yasuhiro Nakasone
was going to be chosen to be the new head of the LDP and, thus,
the next prime minister. I was visiting Japan to attend a
conference at almost this time and was asked by the president to
pay a call on Mr. Nakasone and invite him to visit Washington at the earliest opportunity. I had known Nakasone for a number of years and had great respect for his approach to, and knowledge of, international affairs and the U.S.-Japan relationship. Shortly after this meeting in November, it was mutually agreed upon by the U.S. and Japanese governments that the newly installed prime minister would visit Washington as an official guest of President Reagan in early 1983.

This visit of mine on behalf of Reagan to Nakasone was the first of several during my tenure at the National Security Council and the Department of State in a special liaison capacity between the president and the prime minister and continued in the same manner under Prime Minister Takeshita.

This personal attention to the affairs of state, strongly desired by both the president and the prime minister, contributed greatly to the good and close working relationships that were developed at the top-most levels of our government. Some theoreticians of international affairs believe that this kind of personal diplomacy can be detrimental, in the long run, to the smooth conduct of foreign policy. I agree that it should not be overly used, but it is necessary on occasion when the heads of state must be certain of the positions that each holds. There can be no room for ambiguity on essential and paramount questions. In these instances, a special emissary, such as I was, can be helpful to the process of productive and positive decision making and implementation. There is no doubt in my mind
that my missions to the prime minister to discuss matters related to trade, to defense cooperation and to international affairs, e.g., the Philippine crisis, helped in assuring a more solid and more complementary U.S.-Japan relationship.

In the defense area, the United States has been somewhat ambivalent in stating its defense policy of cooperation with Japan. On the one hand, the U.S. wants to see a Japan which can handle its own defense and contribute in increasing ways to the cost of the stationing of U.S. forces on Japanese soil. On the other side of the coin, the U.S. recognizes the determination of the Japanese people not to become a great military power and the concern of Japan's Asian neighbors that Japan not become militarily strong, but instead build up its defensive forces within the frame of the U.S.-Japan security arrangement.

Prime Minister Suzuki cited the principle of Japanese defense responsibility up to 1,000 nautical miles from Japan's shores. Prime Minister Nakasone restated this and began to beef up Japan's defense budget, finally breaking the one percent rule of expenditure prior to his leaving office, even though in fact the one percent rule, or approximately this, remains in effect.

The U.S.-Japan Mutual Security Treaty is the foundation upon which our bilateral relationship rests. The interests of both the United States and Japan and, indeed, the interests of the West, of which Japan is a part, are well served by it. U.S. security arrangements with Japan, including the presence of troops and facilities there are essential not only for the peace
and security of Japan but for the entire Pacific region, including, of course, the U.S.

So, as the term "mutual security" implies, we share the benefits, as most will agree. There is, however, growing controversy over sharing the cost of that security. The word around Washington these days is "burden sharing." And in this time of budget austerity, an important focus of administration as well as congressional concern is, and must be, defense burden sharing, not limited to any one country but applicable to all. But Japan, in particular, has been criticized for taking a "free ride" on defense costs. Is that true? What is Japan contributing to our mutual defense burden?

Japanese defense spending has grown in real terms at a rate of over 5 percent over the past 10 years, significantly higher than the U.S.'s NATO allies. Japan's defense budget in 1988 was approximately $30 billion. Moreover, Japan contributed over $2.5 billion in 1988 for the support and maintenance of U.S. forces in Japan. In material terms Japan provides the most generous host-nation support program for U.S. forces than the U.S. enjoys anywhere. And the U.S. signed an agreement in 1988 under which Japan, by 1991, will increase its contribution to combined U.S. forces-Japan labor costs by some $300 million a year.

So is Japan taking its defense burden-sharing responsibilities seriously? Of course it is. Can Japan do more? Yes, I believe Japan should and will. I think, for example, Japan can move more quickly to acquire the capabilities to
fulfill defensive missions it has set for itself, including protection of its sea-lanes out to 1,000 nautical miles.

Another area where Japan can and should do more is in its contribution to the maintenance of U.S. forces in Japan. As I said earlier, Japan's host-nation support program already is the most generous the U.S. has. But the fact is that the strong yen has had a dramatic impact on U.S. base expenses. Base worker salaries, fuel for U.S. trucks and aircraft, and the electricity bill at U.S. bases, just to mention a few areas, are paid in yen, not dollars, and Japan could assume a larger share of that burden.

But burden sharing is not limited purely to defense expenditures, just as U.S. cooperation with Japan is not limited only to the defense relationship. One of the areas in which we cooperate very closely is overseas development aid. Japan now has the second largest foreign aid program in the world, and if current trends continue, Japan will overtake the United States in 1991 as the world's largest aid donor.

Increasingly, Japan provides foreign aid to countries of strategic importance to the West. Japan has substantial development assistance programs in countries like the Philippines, Pakistan, Egypt, Jordan, Oman, Turkey, and Jamaica, which are of special importance to the U.S. Still, I believe Japan could do more in this regard.

Japan also has stepped up its efforts to increase financing to developing countries. In 1986-87, the Japanese government
committed itself to recycling $30 billion over 4 years to LDCs (less developed countries). This ambitious program, which includes some concessional bilateral lending and cofinancing with multilateral development banks as well as nonconcessional loans, should provide substantial help to middle-income LDCs with heavy debt burdens. In addition, the Japanese government has stated that the recycling will be completely untied, which could benefit U.S. exports to LDCs.

Obviously, defense and foreign aid are not the only areas in which the U.S. consults and cooperates closely with Japan. In fact, there is hardly any aspect of foreign policy on which we do not coordinate closely, including issues involving Asia, Africa, Latin America, the Middle East, the United Nations, the Soviet Union, and arms control. And I can say that, across the board, we have found Japan's views to be valuable and geared to Western goals; we have seen our cooperation become increasingly intimate and fruitful.

Much of the consultation to which I refer has occurred for many years between senior officials of the two governments. What is noteworthy about the last several years is that consultations at all political and economic levels have become more numerous, more detailed, and more useful. Frequent summit meetings between the President and the Japanese Prime Minister, semiannual subcabinet economic sessions, and numerous other exchange visits are just a few examples. Obviously, a good part of the conversations between government officials of our two countries
concern bilateral relations, and particularly economic relations. But the leaders have taken up a variety of international topics as well, and the discussions have taken on the character of routine coordination and cooperation. I am sure this pattern will continue.

It is precisely because the U.S. defense relationship with Japan is crucial, and because U.S. cooperation with Japan on international matters is so important and cordial, that the economic friction between the two countries is so vexing. The resolution of the trade problems between our two countries is necessary and central to the maintenance of a sound overall relationship.

Let me summarize my analysis of the challenge we face in our economic relations with Japan. With determination and with goals shared by business, government, and citizens, Japan has built an economic structure capable of developing and producing attractive, high-quality products at very competitive prices. In the past, Japan often resorted to "infant industry" protection. That sort of protection, questionable in any event, is no longer defensible. The large Japanese manufacturers have the engineers, the expanding research and development, and ample finance to compete vigorously and successfully at home and abroad in the absence of government protection. There is no more visible evidence of this than the volume of Japan's exports to the United States and to the world. Inefficient industries in Japan, which certainly exist, should restructure or retrench in an environment
of open markets. I believe Japan already is on that path and should be encouraged to adhere to it.

The U.S. economy and the economies of our large trading partners are very much interdependent. We do not, and cannot, exist in isolation. Our economy is particularly closely intertwined with that of Japan. Our two-way trade with Japan in 1987 of $116 billion was our second-largest trading relationship. The United States and Japan together account for some 60 percent of total OECD (Organization for Economic Cooperation and Development) production.

Not just trade but investment flows tie our two economies. The direct investment position in each other's economies stands at about $40 billion and is expanding rapidly. Japanese direct investment in the United States has meant employment for U.S. workers. There are Japanese-owned manufacturing facilities in 40 U.S. states, employing well over 100,000 Americans. These investments have increased U.S. productivity, making U.S. products more competitive at home and abroad. The U.S. continues to be Japan's largest export market. Although the common wisdom these days is that Japan will not buy U.S. products, the facts do not bear this out. Japan imported $28-billion worth of U.S. products in 1987, far more than any other nation except Canada. To put that number into perspective, it is more than the U.S. exported to West Germany, France, and Italy combined.

Within this broad economic relationship, the trade imbalance continues as a major problem. Our trade deficit with Japan holds
between $50 and $60 billion. There is no doubt that the U.S.-
Japan imbalance must be reduced, and soon.

During the past several years the U.S. developed a firm and
consistent set of policies to increase exports to Japan and deal
with the trade imbalance. These include:

* Working for the removal of trade barriers affecting
  individual U.S. products;

* Working with Japan and other countries to obtain exchange
  rates that reflect economic fundamentals;

* Encouraging structural adjustment in the Japanese economy
  to greatly reduce its reliance on exports for growth and to move
  toward significantly more domestic-led growth;

* Taking action under U.S. trade laws, when necessary, to
  remove restrictive trade practices; and

* Cooperating with Japan internationally to strengthen the
  world trade system and promote the success of the Uruguay trade
  round.

In Japan, too many import barriers remain. Much work
remains to be done, although Japan now has the lowest average
import tariffs of any major industrial nation. Because of our
efforts, various barriers to imports of U.S. fish and fish
products, tobacco, legal services, beef, citrus, and forest
products have been removed. Japan is one of the few countries
now removing barriers to trade. Apart from anything else, doing
so will result in the higher standard of living that the Japanese
people have earned.
We should not underestimate the significance of the changing nature of Japan's economy. In the past few years, Japanese policymakers have adopted policies to reorient production and investment toward domestic sectors, to increase imports, and to maintain structural reforms in order to sustain noninflationary growth. These policies are succeeding as the Japanese economy has emerged with vigorous growth, on the strength of domestic demand. The continued strength of the Japanese economy has also made a significant contribution to sustaining global economic expansion.

Let me add some of my own personal observations on the conduct of our economic relations with Japan. In the course of the series of intense trade negotiations during my time as assistant secretary, the U.S. and Japanese governments worked together to solve problems. Some of the negotiations have been strained at times, but they have been successful, especially in seeking greater market access for U.S. firms in numerous areas. Through the talks, Japanese agencies and U.S. agencies have established durable working relationships. The negotiations have been educational on both sides, and the cooperation they have engendered will continue to be essential, given the growing integration of the U.S. and Japanese economies.

In our attempt to deal with the effect of trade on our own industries and with political pressures in the United States, we often forget that other democratic governments must deal with much the same political realities and problems. This is by no
means an argument for inaction. Rather, we should keep a sense of proportion in our relations with Japan and our other trading partners when dealing with trade problems. The goal we must strive for, through international trade and investment, is increased prosperity for ourselves and the global economy. Protectionism, therefore, is not the answer to our trade difficulties. President Bush has stated this in unequivocal terms.

In the present international economy, goods and funds flow easily across borders. Businessmen have many opportunities. If interest rates are high in one country, companies can borrow in another. If the yen appreciates, Japanese businesses are likely to invest in the United States or serve this market from third countries. If we bar imports from one country, we are likely to see shipments from others. To survive in this kind of world, we must look to the fundamentals. We must save and invest, research and innovate. The government must create an environment conducive to these things. But only private individuals and companies can accomplish them.

I think that both Japan and the United States are headed in the right direction. Japanese imports from the United States are growing. The United States is taking steps to correct counterproductive economic policies of its own. At the same time, the Japanese government has resolved to alter its economic structure. The United States and Japan are supporting the economic policy coordination process adopted at the Tokyo and
Venice economic summits, and market access negotiations on specific products will continue.

We have recently witnessed the taking of Super 301 actions by the United States. These actions reflect the continuing concern, particularly in the U.S. Congress about impediments to American exports entering the Japanese market and they do help to put focus on the major problems in the trade area, in this case supercomputers, telecommunications, and forest products, and perhaps serves to force our two governments and bureaucracies to settle specific matters. In the broader sense, the U.S. and Japan have to come to grips with the massive trade deficit or else the worrisome climate in our relationship caused by trade problems will continue to fester.

I would like to point out that our current problems, including those in the trade area, should be viewed in the perspective of the fundamentally strong ties between the United States and Japan and of other problems we have addressed and solved over the years. I am confident that, through perseverance and cooperation, the United States and Japan will solve their economic problems in a way that will contribute to increased prosperity in each country and to an ever more solid and productive relationship across the board. This is all the more essential as our relationship continues to expand beyond the bounds of the bilateral and becomes truly global in scope.